STATE BOARD OF EQUALIZATION
STAFF LEGISLATIVE BILL ANALYSIS

Date Amended:	**03/27/06**	Bill No:	**AB 2182**
Tax:	**Property**	Author:	**Mullin**
Position:	**Board Sponsored**	Related Bills:	

BILL SUMMARY

Contingent upon a budget appropriation, this bill would (1) require the Board of Equalization (Board) to conduct a study to update the information upon which the Board's published annual valuation factors are based for nonproduction computers, semiconductor manufacturing equipment, and biopharmaceutical industry equipment and fixtures and (2) provide that the values determined when using these valuation factors are rebuttably presumed to be the full cash value of the property.

ANALYSIS

Current Law

Section 15606 of the Government Code requires the Board to "[p]repare and issue instruction to assessors designed to promote uniformity throughout the state and its local taxing jurisdictions in the assessment of property for the purposes of taxation."

In addition, and more specifically, Section 401.5 of the Revenue and Taxation Code requires the Board to issue data to assessors relating to the costs of property and other information that will promote uniformity in appraisal practices and in assessed values throughout the state.

The Board complies with these requirements, in part, by issuing various Assessors' Handbooks. With respect to business personal property assessments, the Board annually publishes Assessors' Handbook Section 581, Equipment Index and Percent Good Factors *(AH 581)*. This handbook section contains several tables of equipment index factors, percent good, and valuation factors that aid in the mass appraisal of various types of personal property and fixtures. It also contains specific valuation factors for three classes of property:

- "Computer Valuation Factors" (Table 7),
- "Semiconductor Manufacturing Valuation Factors" (Table 8), and
- "Interim Valuation Factors for Biopharmaceutical Industry Equipment and Fixtures" (Table 9).

The proposed 2006-07 Governor's Budget provides funding for the Board to undertake a study related to property falling within the three categories listed above. Current statutory law is silent as to specific valuation procedures for these types of property.

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.

Proposed Law

This bill is a companion measure to the proposed budget funding to conduct the valuation factor study for the three classes of property. Once the study is complete, the Board will reflect its findings in the valuation factor tables published in the next annual publication of the AH 581.

This bill would add Section 401.20 to the Revenue and Taxation Code to establish a rebuttable presumption that when an assessor uses these updated valuation factors, the resulting values will be rebuttably presumed to be the full cash value of these three classes of property. In addition, this bill would specify that either the assessor or the taxpayer have the right to present evidence supporting values different from those based on the valuation factors in order to attempt to overcome the presumption.

To ensure that the presumption of correctness is not extended to assessments based upon dated studies in the future, the presumption will expire 6 years after the most recent study leading to the development of new factors.

In General

Business Personal Property. Personal property used in a trade or business is generally taxable, and its cost must be reported annually to the assessor on a business property statement, as provided by Revenue and Taxation Code Section 441.

Personal property is not subject to the valuation limitations of Proposition 13. Personal property is valued each lien date at current fair market value. However, it is not administratively possible to annually determine the fair market value of every item of personal property used by all of the businesses in California. Consequently, mass appraisal techniques are necessary to complete the annual reassessment process.

The Board annually publishes AH 581, which contains several tables of equipment index, percent good, and valuation factors that aid in the mass appraisal of various types of personal property. With respect to the subject of this bill, special valuation factor tables are specifically provided for nonproduction computers, semiconductor equipment, and biopharmaceutical industries.

Valuation Process. Generally, the valuation of personal property is based on the acquisition cost of the property. The acquisition cost is multiplied by a price index, an inflation trending factor based on the year of acquisition, to provide an estimate of its reproduction cost new. The reproduction cost new is then multiplied by a depreciation index, also called percent good tables, to provide an estimate of the depreciated reproduction cost of the property (reproduction cost new less depreciation). The reproduction cost new less depreciation value becomes the taxable value of the property for the fiscal year. The mathematical process is slightly different, in that it is more simplified, for the three classes that are the subject of this bill because the "valuation factors" include both the effect of price changes (index or trend) and depreciation. For these classes, the acquisition cost is directly multiplied by the valuation factors to provide an estimate of reproduction cost less depreciation. To illustrate the valuation process, an example is shown below.

Equipment Group	Year Acquired	Cost	Valuation Factor	Reproduction Cost Less Depreciation
Mid-range Computer	2003	$25,000	.30	$7,500

In this example, for property tax purposes, the assessed value of a mid-range computer acquired new in 2003 at a cost of $25,000 would be $7,500 for the 2006-07 tax year.

COMMENTS

1. **Sponsor and Purpose.** This bill is sponsored by the Board to ensure the development of objective and defensible valuation factors that will result in more accurate assessments as well as promote uniformity in the assessment of these property types. This bill is intended to help resolve ongoing disputes in California concerning the proper assessment of this type of property by establishing a presumption of correctness when the resulting valuation factors are used.
2. **The studies used to develop the valuation factors are dated.** The validity of the current valuation factors is increasingly being challenged, giving rise to costly and time consuming assessment appeals. Concern has been expressed by both industry and local assessing officials that the valuation factors currently published by the Board are based upon outdated studies. These types of property have undergone rapid technological change and are more advanced. Consequently, more data should now be available then when the tables were first developed. The semiconductor tables were developed in 1994, the computer tables in 1995, and the biopharmaceutical tables in 1999.
3. **The cost of the study is $264,000 and the Governor's proposed budget provides the necessary funding**. The Senate and Assembly budget subcommittees have approved this funding, and both industry and assessing officials are supportive of undertaking new studies to develop updated valuation factors.
4. **Mass appraisal techniques are necessary in the assessment of business personal property because it is administratively impossible to annually determine the fair market value of every item of personal property used in all businesses in California**. Basing the annual personal property assessment on acquisition cost multiplied by a valuation factor is a necessary administrative practicality and, when used properly, this bill would bestow a presumption of correctness as to the resulting value. This bill would specify that either the assessor or the taxpayer have the right to present evidence supporting values different from those based on the published valuation factors in order to attempt to overcome the presumption. If either the assessor or the taxpayer presents evidence supporting values different than those based on the published factors, then that party would bear the burden of proof. The rebuttable presumption would allow exceptions be dealt with on an individual basis, and values could be altered from that determined by the mathematical computation.

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5. **Specific statutory direction would promote statewide uniformity and help resolve disputes between assessing officials and taxpayers.** Current statutory law is silent as to specific valuation procedures for these types of property. Establishing a presumption of correctness when the valuation factors are followed is intended to ensure that the valuation factors developed will be ultimately used. The assessor has the presumption of correctness only if the value determination is made using the valuation factors. Allowing the presumption to be rebutted serves two purposes: (1) allowing better data to prevail, and (2) avoiding any unconstitutional claims if use of the factors were mandated. Statutory direction and guidance would serve to avoid costly and time-consuming duplicative appeals and litigation at the local level.
6. **Similar Legislation.** Similar issues related to the assessment of other specific property types that have been highly controversial were resolved via specific legislative direction such as this bill provides. For instance, last year, AB 964 (Ch. 699, J. Horton), related to the taxation of commercial air carriers, provided that if a particular assessment methodology is followed, the resulting value is reflective of fair market value. In prior years, legislation has been enacted to establish a rebuttable presumption of correctness when a particular methodology is used for various types of property, specifically: cable TV assessments (AB 3234, Ch. 1630, Stats. 1988); intercounty pipeline land assessments (SB 2106, Ch. 801, Stats. 1996); airport assessments (AB 2318, Ch. 85, Stats. 1998); and commercial air carrier assessments (AB 1807, Ch. 86, Stats. 1998).

COST ESTIMATE

This bill does not have any direct cost impact. It requires that the study be undertaken only if funding is provided to the Board. The proposed Governor's 2006-07 Budget currently contains a $264,000 appropriation.

REVENUE ESTIMATE

This bill has no direct revenue impact.

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