BOARD OF EQUALIZATION

PROPERTY TAX COMMITTEE MEETING MINUTES

HONORABLE GEORGE RUNNER, COMMITTEE CHAIR
450 N STREET, SACRAMENTO

MAY 22, 2014 - 10:00 A.M.

ACTION ITEM

Agenda Item No: 1

Title:

Discussion of Assessors' Handbook Section 410, *Assessment of Newly Constructed Property*

Issue:

Should the State Board of Equalization (Board) adopt and authorize publication of Assessors' Handbook Section 410, *Assessment of Newly Constructed Property*?

Committee Discussion:

Committee Chair Runner opened the Committee meeting by introducing the agenda item and asked staff to give a report on the draft handbook.

Dean Kinnee, Chief, County-Assessed Properties Division, gave the Committee an overview of the project and discussed the extensive interested parties process for the draft handbook.

Presentations were made by:

David Doerr, Chief Tax Consultant, California Taxpayers Association, spoke in opposition to the portion of the handbook whereby assessable new construction can consist of a "portion of" a structure.

Jon Ellis, taxpayer from Calaveras County, spoke in opposition to the portion of the handbook discussing construction in progress on the lien date.

Honorable Larry W. Ward, Riverside County Assessor, President of the California Assessors' Association (CAA), spoke in support of the draft handbook on behalf of the CAA.

Committee Chair Runner acknowledged the concerns expressed by Mr. Doerr and Mr. Ellis, but pointed out that the concerns expressed were actually with the language in the statutes and Property Tax Rules, and that the handbook language was consistent with current law.

Committee Action:

Deputy Controller Mandel moved to adopt the draft of Assessors' Handbook Section 410, *Assessment of Newly Constructed Property,* as presented in Issue Paper 14-004. The motion was seconded by Member Yee and was approved by the Committee unanimously.

Agenda Item No: 2

Title:

Discussion on Assessment Issues for Embedded Software

Issue:

An addendum to the *Report on Bundled Nontaxable Software—Embedded Software,* that was presented to the Board at the January 16, 2014 Property Tax Committee meeting, was submitted to the Committee. The addendum report contains the comments received from other states regarding their treatment of embedded software.

Committee Discussion:

Committee Chair Runner introduced the agenda item and asked staff to give a report on the issue.

Dean Kinnee, Chief, County-Assessed Properties Division, gave the Committee an overview of the addendum report and explained how the data in the report was collected. Mr. Kinnee further advised the Committee that Letter To Assessors 2014/018 was released on April 4, 2014 in response to the direction of the Committee at its January 16, 2014 meeting to provide information to counties and taxpayers regarding the evaluation process used by the Board's State-Assessed Properties Division when a study is submitted by a state assessee to claim an exemption for application software.

Presentations were made by:

Honorable Larry Stone, Santa Clara County Assessor, Chair of the California Assessors' Association (CAA) Ad Hoc Committee on Embedded Software, provided the Committee with information regarding the CAA's efforts to resolve the issues surrounding the assessment of embedded software. (1) The CAA short-term solution was to adopt *Guidelines for Verifying and Measuring Embedded or Bundled Software* which was released on April 17, 2014. (2) The CAA long-term solution is to seek a resolution by the State Legislature. To provide data for the legislative effort, the CAA is contracting with an industry expert to produce an independent report later this year.

Honorable Kristen Spears, Placer County Assessor, Member of the CAA Ad Hoc Committee on Embedded Software, spoke regarding the drafting and release of the CAA guidelines.

Therese Twomey, Fiscal Policy Director, California Taxpayers Association, acknowledge the efforts of the Board in soliciting additional information from other states regarding their efforts in the treatment of embedded software; and the release of the Letter To Assessors regarding the treatment of studies by the State-Assessed Properties Division. Ms. Twomey indicated that the California Taxpayers Association looks forward to working with the Board and counties to continue to work toward a solution to the issues involved with the assessment of application software.

Committee Action:

Committee Chair Runner acknowledged the frustration regarding the difficulty of finding a solution to the embedded software issues. The Chair advised that his office and the Committee will continue to work with county assessors and the business community and will monitor the effects the guidelines developed by the CAA might have as they are put into practice. Additionally, the data provided by the industry expert contracted by the CAA will be closely analyzed for possible solutions.

Approved:

George Runner, Committee Chair

Cynthia Bridges, Executive Director

BOARD APPROVED

At the 5/22/14 Board Meeting

Joann Richmond, Chief
Board Proceedings Division