STATE OF CALIFORNIA

STATE BOARD OF EQUALIZATION

1020 N STREET, SACRAMENTO, CALIFORNIA
(P.O. BOX 1799, SACRAMENTO, CALIFORNIA 95808)
(916) 445-4982

February 20, 1985

No. 85/24

TO COUNTY ASSESSORS:

SUPPLEMENTAL ASSESSMENTS ON FIXTURES
CHAPTER 946 OF STATUTES OF 1984 (ASSEMBLY BILL 2345)

The above-referenced legislation redefined "property" in Section 75.5 to include fixtures and added Section 75.15 to the Revenue and Taxation Code. Section 75.15(a) states in part:

> "For fixtures, other than fixtures which are included in a change in ownership or which are included in a structure and are assessed at the completion of a structure pursuant to Section 75.12, taxpayers shall report, beginning in 1985, to the assessor once each year at the time the annual property statement is due, on the fixtures added to real property and fixtures removed from real property, the dates of those additions and removals, and the values of each in the prior 12-month period from March 1 to March 1. One supplemental tax bill shall be prepared for those fixtures based on the value of the fixtures added and subtracted from real property, the date of each addition or subtraction, and the appropriate tax rate computed pursuant to Section 75.41."

With these changes in the Revenue and Taxation Code, fixtures as defined in Board Rule 122.5 are subject to supplemental assessments and are to be added to a supplemental roll when they constitute new construction or when a change of ownership occurs.

"Newly constructed" and "new construction" are provided for in Section 70 of the Revenue and Taxation Code as:

1. Any addition to real property, whether land or improvements (including fixtures), since the last lien date; and

2. Any alteration of land or of any improvement (including fixtures) since the last lien date which constitutes a major rehabilitation thereof or which converts the property to a different use. (A major rehabilitation is any rehabilitation, renovation, or modernization which converts an improvement or fixture to the substantial equivalent of a new improvement or fixture.)

Provisions governing the valuation of newly constructed property are contained in Property Tax Rule 463 (a). It states:

> "(a) When real property, or a portion thereof, is newly constructed after the 1975 lien date, the assessor shall ascertain the full value of such 'newly constructed property' as of the date of completion. This will establish a new base year value for only that portion of the property which is newly constructed, whether it is an addition or alteration. The taxable value on the total property shall be determined by adding the full value of new construction to the taxable value of preexisting property reduced to account for the taxable value of property removed during construction. The full value of new construction is only that value resulting from the new construction and does not include value increases not associated with the new construction."

Based on the above-mentioned provisions of law and in accordance with prior Letters to Assessors, we recommend the following principles be applied in determining the amounts to be enrolled on a supplemental roll for newly constructed fixtures and for fixtures which have changed ownership:

1. If the addition to or removal from real property of a fixture is associated with and incidental to other construction its date of completion for enrolling on the supplemental roll shall be the same as the date of completion for the whole project. (See Section 75.12, Revenue and Taxation Code.)

2. If the fixture is transferred as part of a transaction involving other real property which qualifies as a change in ownership, the fixture shall be reappraised as part of that transaction.

3. When there is no new construction other than that required to install a fixture and possibly remove a fixture, the appraisal unit shall be only the fixture and the associated new construction. The valuation date of the fixture added to realty, the fixture removed from realty, and the new construction required to add and remove the fixtures shall be the date construction is completed and not the date the fixture is acquired. The value of a fixture shall be as installed and not as acquired. Where fixtures are installed <u>after</u> the completion of a structure erected to house the fixtures, the fixtures will have their own completion date independent of that of the structure.

4. The fixture removed from real property as part of new construction is subtracted from the value added by the new fixture regardless of whether it is retained on the site or not.

Example: Old fixture is removed from real property and placed in storage in warehouse and new fixture is installed in August. The old fixture had a roll value of $10,000 and the new installed fixture (including removal of the old fixture and installation of the new fixture) is worth $30,000.

a. <u>Supplemental Assessment Calculation</u>

Value of new construction	$30,000
Value from 601 roll	-10,000
Net value for supplemental assessment	$20,000

b. <u>Subsequent 601 Roll</u>

New construction assessed	$30,000
FCV of old fixture to be assessed as personal property on forthcoming 601 roll (assumed for example)	10,000
Total assessed value	$40,000

5. Removal of a fixture from real property does not constitute new construction in and of itself (see Letter to Assessors 83/128, questions 7 and 8). In order that the removal of a fixture be processed as a credit for supplemental assessment purposes, the removal must be <u>associated</u> with a fixture addition or other related new construction, e.g., a boiler is removed to accommodate a new boiler or other new construction. When there are removals and there are no fixture additions or other new construction associated with the removals, there would be no supplemental assessment because there has been no new construction; instead, the taxable value of the disposals would neither be reported nor assessed on the ensuing lien date.

6. Fixtures transferred from one location to another, whether within the same county or to a different county, and installed should be appraised as new construction at the new location. The supplemental roll value would be the difference, if any, between the old and new location's values. The full value of the installed fixture at the new location would be enrolled on the next regular roll using as a basis of valuation the original year of acquisition.

7. Fixtures transferred in from an out-of-state location would be treated as new construction subject to supplemental roll assessment. Entry on the supplemental roll should be made when construction is deemed complete and shall reflect installed value.

8. Fixtures transferred to an out-of-state location would not be processed as a credit for supplemental assessment purposes unless removal were part of related new construction. Instead, the taxable value of the transfers would be deducted from the total taxable value on the ensuing lien date.

9. The value of property which has been reported and assessed either as personal property or as construction in progress on the lien date but which subsequently becomes a fixture when construction is completed must be credited when calculating the supplemental assessment amount for the fixture addition (See Exhibit B, footnote 1).

10. If taxpayers report on form AH 571-D the fixture additions and subtractions in lump sum amounts by month without descriptions, the taxpayer should be contacted and an attempt made to obtain descriptions of the additions and subtractions.

Attached are Exhibits A, B, and C for your reference. Exhibit A illustrates the reportings of fixture additions and disposals on form AH 571-D; Exhibit B illustrates the calculations of supplemental assessment amounts; and Exhibit C is a suggested notice to taxpayer regarding the supplemental assessment. It may be necessary to include the illustrated worksheet (Exhibit B) in the notice to taxpayers to assure adequate notification to the taxpayer.

Additional instructions to the reporting taxpayer for completion of the AH 571-D schedule are in order. Staff is preparing a letter of reporting instructions to taxpayers for your use or consideration. This effort will have a high priority recognizing that many assessors will be mailing this schedule with property statements in the next few weeks. Workshops focusing on the calculation of supplemental assessments of fixtures will be scheduled for assessors' staff in March and April.

If you have any questions, please contact our Business Technical Services Section. The telephone number is (916) 445-4982.

Sincerely,

Verne Walton

Verne Walton, Chief
Assessment Standards Division

VW:wpc
Attachments
AL-08A-1763A/W-2

EXHIBIT A

SUPPLEMENTAL SCHEDULE FOR REPORTING MONTHLY ACQUISITIONS AND DISPOSALS OF PROPERTY REPORTED ON SCHEDULE A AND SCHEDULE B OF THE BUSINESS PROPERTY STATEMENT

XYZ CORPORATION	100 CENTER STREET, ANYTOWN, CA 99000	Same
(OWNER NAME)	(MAILING ADDRESS)	(LOCATION OF PROPERTY)

INSTRUCTIONS — Report all acquisitions and disposals in the period specified in the Instructions for Schedules A and B of the Business Property Statement. Total acquisitions/disposals must agree with the various schedules of the Business Property Statement.

ADDITIONS — Describe and enter the total acquisition cost, including excise, sales and use taxes, freight-in, and installation charges for each month in which an addition was made. However, DO NOT include transfers of property from other locations of your company; such property should be reported by its original acquisition date and cost on a separate sheet.

DISPOSALS — Describe and enter by month of disposal, the original installed cost for each asset which was sold or scrapped. Enter the year of acquisition for each disposed-of asset. However, DO NOT include transfers of property to other locations of your company; such property should be reported by its original acquisition date and cost on a separate sheet. Do not combine reportings; use a separate schedule for each category of property. Check only one box per schedule. If additional schedules are needed, photocopy this schedule.

Schedule A Col. 1 [X] 4 [ ] 5 [ ]
Schedule B Col. 1 [ ] 2 [ ] 3 [ ] 4 [ ]

ADDITIONS			DISPOSALS					
Enter Month & Year of Acquisition	Description	Cost	Enter Month & Year of Disposal	Year Acq.	Description	Cost	ASSESSOR'S USE ONLY	
3/84	PUNCH PRESS	$75000	3/84	1962	PUNCH PRESS	$35000	79	63
5/84	TURRET LATHE	$105000	~~4/84~~	~~1975~~	~~DRILL PRESS~~ 4	$12000	90	72
~~6/84~~	~~PORTABLE WELDING MACHINE~~	~~$1000~~	6/84	1975	TEMPERING MACHINE	$27000		90
6/84	TEMPERING MACHINE	$25000	9/84	1958	ANEALING MACHINE	$75000		70
34	ANNEALING MACHINE	$200000	~~11/84~~	~~1960~~	~~CONVEYOR SYSTEM~~ 5	$85000		7
1/84	BOILER	$25000					2	3
1/85	FINISHING MACHINE	$92000						
1/85	LABELING MACHINE	$500000						

1. PERSONAL PROPERTY NOT SUBJECT TO SUPPLEMENTAL ASSESSMENT
2. ASSESSOR'S VALUATION FACTOR USED FOR VALUING M & E ON 1983-84 ROLL
3. ASSESSOR'S VALUATION FACTOR USED FOR VALUING M & E ON 1984-85 ROLL
4. THERE WOULD BE NO SUPPLEMENTAL ASSESSMENT BECAUSE THERE HAS BEEN NO NEW CONSTRUCTION. DISPOSALS, IN AND OF THEMSELVES, DO NOT CONSTITUTE NEW CONSTRUCTION. THE TAXABLE VALUE OF THE TOTALLY REMOVED FIXTURE WOULD BE DEDUCTED FROM TOTAL TAXABLE VALUE ON THE ENSUING LIEN DATE.
5. DISPOSALS WITH NO FIXTURE ADDITIONS ASSOCIATED WITH THE DISPOSALS ARE NOT PROCESSED AS A CREDIT FOR SUPPLEMENTAL PURPOSES. THE TAXABLE VALUE OF THE DISPOSAL WOULD BE DEDUCTED FROM THE TOTAL TAXABLE VALUE ON THE ENSUING LIEN DATE.

NOTE: In this example if either the drill press, disposed of 4/84, or conveyor system, disposed of 11/84, were classified as fixtures and were disposed of to accommodate new construction, they would appear as offsets in calculating your supplemental roll assessment values. For purposes of this example, neither one is considered to be related to any new construction.

EXHIBIT B

CALCULATION OF SUPPLEMENTAL ASSESSMENT
AMOUNTS FOR FIXTURES

MONTH & YEAR	DESCRIPTION	(1) TYPE	(2) COST	(3) ACQ. COST OF DISPOSAL	(4) YEAR ACQUIRED	(5) VALUE OF FIXTURE ON 1983-84 ROLL	(6) VALUE OF FIXTURE ON 1984-85 ROLL	(7) 1983-84 SUPPLEMENTAL ASSESSMENT AMOUNT COL. 2 MINUS COL. 5	(8) 1984-85 SUPPLEMENTAL ASSESSMENT AMOUNT COL. 2 MINUS COL. 6	(9) FULL AMOUNT OF TAXES FOR FISCAL YEAR 1983-84	(10) PRORATED TAXES FISCAL YEAR 1983-84	(11) FULL AMOUNT OF TAXES FOR FISCAL YEAR 1984-85	(12) PRORATED TAXES FISCAL YEAR 1984-85
03/84	PUNCH PRESS	NEW CONST.	$ 75,000	$ 35,000	1962	$27,650	$22,050	$ 47,350	$ 52,950				
05/84	TURRET LATHE	NEW CONST.	105,000			--	--	105,000	105,000				
06/84	TEMPERING MACHINE	NEW CONST.	25,000	27,000	1975	--	24,300	--	700				
09/84	ANNEALING MACHINE	NEW CONST.	200,000	75,000	1958	--	52,500	--	147,500				
11/84	BOILER	NEW CONST.	25,000			--	--	--	25,000				
01/85	FINISHING MACHINE	NEW CONST.	92,000			--	--	--	92,000				
01/85	LABELING MACHINE	NEW CONST.	500,000				375,000 (1)		125,000				
								$152,350	$548,150				

(1) ON 03/01/84 LIEN DATE THIS FIXTURE WAS PARTIALLY COMPLETE C.I.P. AND WAS VALUED AT $375,000 ON 1984-85 ROLL.

EXHIBIT C

Date Notice Mailed:

Assessors' Parcel #:

Situs Address:

NOTICE OF SUPPLEMENTAL ASSESSMENT

Based on information obtained from your Business Property Statement, SBE-AH 571L, and/or your books and records, the above identified property is subject to supplemental assessment(s) in the amount(s) indicated on the attached sheet. The reason for these supplemental assessments is one or both of the following events:

DATE OF EVENT

A. Change of ownership ____________________

B. Completion of construction ____________________

The law now provides for supplemental assessments to be added to a separate tax roll whenever new construction is completed and whenever real property changes ownership. This real property, including fixtures, is to be appraised as of the date of the event i.e., change in ownership or completion of new construction. The law also provides that only one supplemental tax bill shall be prepared for all fixture additions and disposals which occurred in the prior 12-month period from March 1 to March 1. The taxes based on these supplemental assessments will be prorated to reflect the portion of the fiscal year remaining after the property change of ownership and/or completion of new construction. ANY PROPERTY TAXES DUE PURSUANT TO THESE SUPPLEMENTAL ASSESSMENTS WILL BE IN ADDITION TO THE REGULAR UNSECURED PROPERTY TAX BILL MAILED IN JULY OR THE REGULAR SECURED PROPERTY TAX BILL MAILED IN NOVEMBER.

This supplemental assessment has been determined in accordance with California Constitutional Article XIII A requiring that real property be assessed at its full cash value in the event of a change in ownership or when newly constructed.

If the supplemental assessment is a negative amount, the auditor shall make a refund of a portion of taxes paid on assessments made on the current roll or the roll being prepared or both.

If you are eligible for an exemption, you must file a claim for such exemption with this office on or before the 30th calendar day following the date of mailing of this notice.

You have the right to appeal this supplemental assessment and may do so by filing an application for reduction with the clerk of the board of supervisors no later than 60 calendar days from the date of mailing of this notice.

Attachment
AL-08B-1337A