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 No. 79/178

October 16, 1979

TO COUNTY ASSESSORS:

LEGISLATION AFFECTING MANDATORY AUDITS

Senate Bill 884 (Chapter 518) was signed by the Governor on September 7, 1979. As the bill did not contain an urgency clause, it will take effect on January 1, 1980.

The legislation makes revisions in Revenue and Taxation Sections 469, 533, 534, and 1605. The revisions of any consequence occurred in Section 469 and are as follows:

- (1) Increases the minimum full value of a mandatory audit from \$100,000 to \$200,000.
- (2) Includes trade fixtures with personal property in determining the minimum full value of a mandatory audit.

There are two questions raised by this legislation. First, what did the Legislature intend to include within the term "trade fixtures?" Second, in calculating the mandatory audit workload for the second half of the 1979/80 fiscal year and future years, should the revisions apply to prior years under audit?

The term "trade fixtures" is not defined in the Revenue and Taxation Code. However, Section 1019 of the California Civil Code describes a trade fixture as property a tenant installs for purposes of trade and which does not become an integral part of the building. We believe that when the Legislature used the words "trade fixtures," it was referring to any fixtures which are used in connection with a trade or business. This would include any property qualifying as fixtures under the definition in the business property statement, plus machinery and equipment classified as improvements. Regarding the application to prior year audits, beginning with the January 1, 1980, effective date of the legislation, an account will be considered a mandatory audit if the combined full value of the personal property, fixed machinery and equipment, and fixtures is \$200,000 or more for the immediately preceding four consecutive years, and providing one or more of the years had not been included in a previous audit.

We will be proposing revisions to Property Tax Rule 192, Mandatory Audits, during the next few months. Any questions should be directed to Bud Florence of this division.

Sincerely,

Verne Walton

Verne Walton, Chief
 Assessment Standards Division