STATE OF CALIFORNIA

STATE BOARD OF EQUALIZATION
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Executive Secretary

March 27, 1979

79/62

TO COUNTY ASSESSORS, COUNTY COUNSELS, ASSESSMENT APPEALS BOARDS, AND OTHER INTERESTED PARTIES:

PROPERTY TAX RULES 460-471

After a public hearing held January 23, 1979, the State Board of Equalization adopted amendments to Property Tax Rules 460, 461, 463, and 467 to reflect the provisions of Proposition 8, adopted by the electorate on November 7, 1978. These typewritten rules were sent to you under cover of our letter of February 13, 1979, letter 79/33.

Enclosed for your information is a copy of the varityped rules.

Any questions regarding these rules should be directed to the Assessment Standards Division (916/445-4982).

Sincerely,

D D Bell

Douglas D. Bell
Executive Secretary

DDB/k
Enclosure

Rule No. 467. (Cal. Adm. Code) TAXABLE POSSESSORY INTERESTS.

Reference: Article XIII A, Sections 1 and 2, California Constitution.

The assessor shall ascertain the full value of all taxable possessory interests as defined in Section 21 of this code and created prior to March 1, 1975, as of that date. Possessory interests newly created subsequent to March 1, 1975, shall be appraised at their full value as of the date of creation

Possessory interests subleased or assigned for a term in excess of ten years shall be appraised as of the date the sublessee or assignee obtains the right to occupancy or use of the property.

New improvements erected for the purpose of exercising the rights granted by the possessory interest held in land shall be valued as of the date of the completion of construction. When improvements owned by the holder of the possessory interests are in the course of construction for a period that covers more than one lien date, they shall be appraised in accordance with Section 463.

If the current full value of any possessory interest declines for any reason to a value that is less than its full cash value base the current assessment shall reflect that decline.

History: Adopted June 29, 1978, effective July 3, 1978.
Amended September 26, 1978, effective October 2, 1978.
Amended January 25, 1979, effective March 1, 1979. Applicable to assessments for 1979 and years thereafter.

Rule No. 468. (Cal. Adm. Code) OIL AND GAS PRODUCING PROPERTIES.

Reference: Sections 110, 110.1, 110.5, 110.6, Revenue and Taxation Code.

Petroleum, natural gas, and other fluid hydrocarbons are natural substances of the earth, and are classified as land. The volume of these hydrocarbons that will be removed from the land consists of the amount that is classified at a given time as "proved reserves." Proved reserves are the volumes of crude oil and natural gas which geological and engineering information indicate, beyond reasonable doubt, to be recoverable in the future from oil and gas reservoirs under existing economic and operating conditions. The development of proved reserves by drilling and completing wells and by installing production systems constitutes an addition to real property and the production of oil and gas constitutes a removal of real property.

(a) The full value of an oil or gas producing property is its base year full value adjusted for depletion of reserves. The value attributable to such depletion shall be determined annually employing the economic data that applied in the base year.

(b) The base year of newly developed reserves shall be the date of completion of the well or the installation of the production system.

History Adopted June 29, 1978, effective July 3, 1978.

Rule No. 469. (Cal. Adm. Code) MINES AND QUARRIES.

Reference: Sections 110, 110.1, 110.5, 110.6, Revenue and Taxation Code.

Organic and inorganic minerals and rocks are natural substances of the earth, and are classified as land. The volume of minerals or rocks of acceptable quality that may be removed from the land under existing economic and operating conditions are classified as reserves. The creation of reserves by exploration or by development constitutes an addition to real property and the production of the minerals or rocks from a reserve constitutes a removal of real property.

(a) The full value of a mine or quarry is its base year full value adjusted for the depletion of reserves. The value of the depleted reserves shall be determined annually employing the economic data that applied to the establishment of the reserves in the base year.

(b) The base year of new reserves shall be the year in which either development or mining occurs.

History Adopted June 29, 1978, effective July 3, 1978.
Amended September 26, 1978, effective October 2, 1978.

Rule No. 470. (Cal. Adm. Code) OPEN-SPACE.

Reference: Sections 110, 110.1, 110.5, 110.6, Revenue and Taxation Code.

All open-space lands "enforceably restricted" within the meaning of Sections 421 and 422 of the Revenue and Taxation Code shall have a base year restricted value determined by one of the following methods:

(a) If enforceably restricted prior to the 1975 lien date with no subsequent change in ownership, the base year full value is the 1975 restricted value.

(b) If an enforceable restriction is entered into subsequent to the 1975 lien date and no change in ownership has occurred, the base year full value is the value as if restricted in 1975.

(c) If a change in ownership has occurred subsequent to the 1975 lien date, the base year full value shall be the restricted value redetermined as of the date of the most recent change in ownership, regardless of the effective date of the enforceable restriction.

All base year restricted values shall be modified annually by the inflation rate. Subsequent land improvements such as wells and land leveling, will be valued by capitalizing the income attributable to the land improvements using the capitalization rate prescribed in Section 423 (b) of the Revenue and Taxation Code.

When an open-space contract is cancelled, pursuant to the provisions of Sections 51280 through 51285 of the Government Code, the full cash value of the land shall be the appropriate base year full cash value as modified annually by the inflation rate.

When an open-space contract is not renewed it shall be phased out under the provisions of Section 426 of the Revenue and Taxation Code; "the full cash value of the land" shall be the base year full cash value modified annually by the inflation rate. The value of the land by capitalization of income shall be the base year restricted value modified annually by the inflation rate.

History. Adopted June 29, 1978, effective July 3, 1978.
Amended September 26, 1978, effective October 2, 1978.

Rule No. 471. (Cal. Adm. Code) TIMBERLAND.

Reference: Sections 110, 110.1, 110.5, 110.6, Revenue and Taxation Code.

Consistent with the intent of the provisions of Section 3 (j) of Article XIII of the California Constitution and the legislative interpretation thereof, the base year value for land which has been zoned as timberland pursuant to Sections 51110 or 51113 of the Government Code shall be ascertained from the 1977 statutory timberland site class value schedule and shall be modified annually by the inflation rate.

If, on or after March 1, 1979, timberland, or a portion thereof, is purchased, or otherwise undergoes a "change in ownership" as that phrase is defined in Section 462, its base year value shall be ascertained from the most recent board-adopted timberland site class value schedule to be adopted by the Board on or before January 1, 1980. Base year values for timberland which changes ownership on or after March 1, 1980, shall be ascertained from the board-adopted timberland site class value schedule in effect as of the date of change in ownership.

Values determined as provided in this section shall be enrolled on the lien date next succeeding the date when the timberland, or a portion thereof, changed ownership. Each year following enactment of a new base year value that value shall be modified by the annual inflation rate.

History: Adopted June 29, 1978, effective July 3, 1978.
Amended September 26, 1978, effective October 2, 1978

Rule No. 463. (Cal. Adm. Code) NEWLY CONSTRUCTED PROPERTY.

Reference· Article XIII A, Sections 1 and 2, California Constitution.

(a) The term "newly constructed" means and includes any addition or improvement to land, whether classified as land or improvement for purposes of enrollment, and any addition of new improvements or alterations of existing improvements if said alteration results in a conversion to another use or an extension of the economic life of the improvement.

Examples of alterations that qualify as "newly constructed" and thereby require current market value appraisal of the alteration are those that result in any increase in the usable square footage of a structure, the renovation of what was formerly residential property to make it usable for commercial purposes and vice versa, the conversion of property from one commercial use to another, and any alteration that increases the usefulness of the structure, such as the addition of a bathroom.

Excluded from alterations that qualify as "newly constructed" is construction or reconstruction performed for the purpose of routine or normal maintenance and repair, e.g., interior or exterior painting, replacement of roof coverings and the addition of aluminum siding. Also excluded are alterations which do not result in an increased usefulness of existing facilities, such as occurs in the modernization of a kitchen.

For purposes of Section 2 (a) of Article XIII A of the Constitution, the definitions of land and improvements contained in Sections 121 and 122, respectively, and the examples contained in Section 124, shall apply.

(b) Newly constructed property does not include real property which is reconstructed after a disaster where the full value of such real property, as reconstructed, is substantially equivalent to its full value prior to the disaster. If the values are not substantially equivalent, the assessor shall on the lien date following restoration:

1. Enroll the restored property at its former value plus or minus the appropriate inflation adjustment, or

2. Enroll the current market value of the restored property if the current market value is less than the value found in Item 1 above, or

3. Enroll the value found in Item 1 above plus the market value of any newly constructed property if it is determined that new construction has occurred as provided for in Section 463 (a).

(c) This subsection does not apply to the valuation of property which changes ownership between the date the property is damaged by a disaster and the date it is restored.

(d) 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 full value for only that portion of the real property which is newly constructed. The taxable value of property which is removed during construction shall be deducted from the taxable value of pre-existing property; provided that such net taxable value shall not be less than zero.

New construction in progress on the lien date shall be appraised at its full value on such date and each lien date thereafter until the date of completion, at which time the entire portion of property which is newly constructed shall be reappraised at its full value.

For purposes of this section, the date of completion is the date the property or portion thereof is available for use for the purpose intended as indicated by the design of the structure. In determining whether the structure or a portion thereof is available for use, consideration shall be given to the date of the final inspection by the appropriate governmental official, or, in the absence of such inspection, the date the prime contractor fulfilled all of his contract obligations.

History Adopted June 29, 1978, effective July 3, 1978.
Amended September 26, 1978, effective October 2, 1978.
Amended January 25, 1979, effective March 1, 1979 Applicable to assessments for 1979 and years thereafter.

Rule No. 464. (Cal. Adm. Code) EXEMPTIONS.

Reference: Sections 110, 110.1, 110.5, 110.6, Revenue and Taxation Code.

Article XIII A does not repeal any property tax exemptions granted or authorized by the Constitution on or before July 1, 1978. The property tax rate shall apply to the current taxable value less any exemptions applicable to a specific property. Examples of the application of partial exemptions are as follows:

(a) Homeowners' exemption. The property tax rate applies to the current taxable value of property qualifying for the homeowners' exemption less the value of the exemption.

(b) Veterans' exemption. The sum of 25 percent of the taxable value of taxable assets and 100 percent of the current full cash value as defined in Revenue and Taxation Code Section 110 for non-taxable assets will determine the limitation for the veterans' property tax exemption. Article XIII A contains no provision for reconsidering the granting of the exemption prior to 1978. The property tax rate applies to the current taxable value of property qualifying for the veterans' exemption less the value of the exemption.

(c) Disabled veterans' exemption. The property tax rate applies to current taxable value of property qualifying for the disabled veterans' property tax exemption less the value of the exemption.

History: Adopted June 29, 1978, effective July 3, 1978.

Rule No. 465. (Cal. Adm. Code) NONPROFIT GOLF COURSES.

Reference: Sections 110, 110.1, 110.5, 110.6, Revenue and Taxation Code.

When appraising real property used exclusively for nonprofit golf course purposes in accordance with the provisions of Section 10 of Article XIII of the California Constitution, the assessor shall ascertain the value of such property on the basis of such use, plus the full value attributable to any mineral rights, as of the appropriate base year, regardless of the date such property qualified under the constitutional provisions.

History. Adopted June 29, 1978, effective July 3, 1978.

Rule No. 466. (Cal. Adm. Code) VALUATION AND ENROLLMENT OF TREES AND VINES

Reference: Sections 110, 110.1, 110.5, 110.6, Revenue and Taxation Code.

The base year value of fruit and nut trees, vines, bushes, or other perennials when planted in orchard, grove, or vineyard form whether or not enforceably restricted shall be the most recent of the following:

(a) The full value as of the 1975 lien date.
(b) The full value as of the date of planting, or
(c) The full value as of the date of a change in ownership.

The full value of trees and vines exempted by Article XIII, Section 3 (i), of the State Constitution shall not be enrolled until the lien date following the expiration of the exemption.

History Adopted June 29, 1978, effective July 3, 1978.
Amended September 26, 1978, effective October 2, 1978.

State of California

BOARD OF EQUALIZATION

PROPERTY TAX DEPARTMENT

PROPERTY TAX RULES AND REGULATIONS

Chapter 1. State Board of Equalization – Property Tax
Subchapter 4. Equalization by State Board
Article 3. Taxable Property of a County, City or Municipal Corporation

Rule No. 460. (Cal. Adm. Code) GENERAL APPLICATION.

Reference: Article XIII A, Sections 1 and 2, California Constitution.

(a) Sections 1 and 2 of Article XIII A of the Constitution provide for a limitation on property taxes and a procedure for establishing the current taxable value of locally assessed real property by reference to a base year full cash value which is then modified annually to reflect the inflation rate not to exceed two percent per year.

(b) The following definitions govern the construction of the terms in the rules pertaining to Sections 1 and 2 of Article XIII A.

(1) BASE YEAR. The assessment year 1975-76 serves as the original base year. Thereafter, any assessment year in which real property, or a portion thereof, is purchased, is newly constructed, or changes ownership shall become the base year used in determining the full value for such real property, or a portion thereof.

(2) FULL CASH VALUE.

(A) The full cash value of real property means the "full cash value" as defined in Section 110 of the Revenue and Taxation Code, as of:

1. The lien date in 1975, for the base year 1975-76, or

2. The date such real property is purchased, is newly constructed, or changes ownership after the 1975 lien date, the full cash value of which shall be enrolled on the lien date next succeeding the date when such real property, or portion thereof, is purchased, is newly constructed, or changes ownership.

(B) If real property has not been appraised pursuant to Section 405.5 of the Revenue and Taxation Code to its appropriate base year full cash value, then the assessor shall reappraise such property to its full cash value for the appropriate base year lien date. Such reappraisals may be made at any time, notwithstanding the provisions of Section 405.6 of the Revenue and Taxation Code.

(3) RESTRICTED VALUE. Restricted value means a value standard other than full cash value prescribed by the Constitution or by statute authorized by the Constitution.

(4) FULL VALUE. Full value (appraised value) means either the full cash value or the restricted value.

(5) INFLATION RATE. For each lien date after the lien date in which the base year full value is determined, the full value of real property shall be modified to reflect the percentage change in cost of living, as defined in Section 2212 of the Revenue and Taxation Code, provided that such value shall not reflect an increase in excess of 2 percent of the taxable value of the preceding lien date.

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Rule No. 460. (Cal. Adm. Code) GENERAL APPLICATION. (Continued)

(6) TAXABLE VALUE. Taxable value means the base year full value adjusted for any given lien date as required by law.

(7) FULL CASH VALUE BASE. Full cash value base means the base year value of real property appropriately indexed to the lien date for which the roll is being prepared.

(8) PROPERTY TAX RATE. The property tax rate is the rate calculated in accordance with the ad valorem tax limitations prescribed by Section 1 of Article XIII A of the Constitution.

History Adopted June 29, 1978, effective July 3, 1978
Amended September 26, 1978, effective October 2, 1978
Amended January 25, 1979, effective March 1, 1979. Applicable to assessments for 1979 and years thereafter

Rule No. 461. (Cal. Adm. Code) REAL PROPERTY VALUE CHANGES.

Reference: Article XIII A, Sections 1 and 2, California Constitution.

(a) Section 2 of Article XIII A of the California Constitution provides that real property shall be reappraised if purchased, newly constructed (Section 463) or a change in ownership occurs (Section 462) after the original base year. A purchase is any transfer of title or right to the use, occupancy, possession or profit a prendre of real property, or portion thereof, for a consideration, other than a transfer included in the definition of change of ownership or specifically excluded therefrom by Section 462. The creation of a private interest in nontaxable publicly owned property and publicly owned property subject to tax under Section 11 of Article XIII of the Constitution, which constitutes a possessory interest as the term is defined in Section 21 (b) of this code, is regarded as a purchase regardless of the period of the interest. Such an interest shall be appraised at its full value as of the date of creation.

(b) Unless otherwise provided for in this chapter, real property which was not subject to valuation in any prior base year, such as newly discovered or additional proved oil and gas reserves, shall be appraised at full value on the lien date immediately following discovery.

(c) The taxable value of real property, or portion thereof, physically removed from the site shall be deducted from the property's taxable value, provided that such net taxable value shall not be less than zero.

(d) For the tax year 1979–80 and tax years thereafter the assessor shall prepare an assessment roll containing the full cash value base of property adjusted to reflect factors causing the then current full value of property to be less than its full cash value base.

Declines in value will be determined by comparing the current full value of the appraisal unit as of the lien date to the full cash value base of the same unit. Land and improvements constitute an appraisal unit except when measuring declines in value caused by disaster, in which case land shall constitute a separate unit. For purposes of this subsection fixtures and other machinery and equipment classified as improvements constitute a separate appraisal unit.

When the current full value of property is less than its full cash value base, the full value shall be enrolled as the current taxable value and shall constitute a new base year value.

(e) The taxable value of real property damaged or destroyed by a misfortune or calamity is to be adjusted in accordance with the Revenue and Taxation Code. If the property is restored, the assessor shall on the lien date following restoration enroll it at its former value plus the appropriate inflation adjustment, unless:

1. The full value of the restored property as of the lien date is less than the full cash value base in which case the lower value shall be enrolled as the new base year value, or

2. It is determined that new construction has occurred in which case the property's value shall be enrolled as provided in Section 463.

History: Adopted June 29, 1978, effective July 3, 1978.
Amended September 26, 1978, effective October 2, 1978
Amended January 25, 1979, effective March 1, 1979. Applicable to assessments for 1979 and years thereafter.

Rule No. 462. (Cal. Adm. Code) CHANGE IN OWNERSHIP.

Reference· Sections 110, 110.1, 110.5, 110.6, Revenue and Taxation Code.

There shall be a reappraisal of real property as of the date of the change in ownership of that property. The reappraisal will establish a new base year full value and will be enrolled on the lien date following the change in ownership. Except as otherwise provided in this section, "change in ownership" refers to all transfers of property whether by grant, gift, devise, inheritance, trust, contract of sale, addition or deletion of an owner, property settlement, or any other change in the method of holding title, whether by voluntary or involuntary transfer or by operation of law. A change in the name of an owner of property not involving a change in ownership is excluded from the term "transfer" as used in this section.

(a) A transfer of the full fee title to land and/or improvements by any means is a change in ownership requiring reappraisal of the property transferred. This includes transfers of units in planned developments as defined in Section 11003 and 11003.1 of the Business and Professions Code, units in cooperative housing developments controlled by cooperative housing corporations as defined in Section 17265 of the Revenue and Taxation Code and condominiums as defined in Section 783 of the Civil Code.

The transfer of an undivided interest in property constitutes a change of ownership in the entire property except as provided in (h) (2) and (4) while the transfer of a divided interest results in a change in ownership only in the property or portion thereof transferred.

(b) A transfer of equitable title is a change in ownership.

(c) The creation, sublease or assignment of the right to beneficial use and possession of taxable or nontaxable real property and the transfer of the lessor's interest in any leased property constitutes a change in ownership of real property or not as follows:

(1) The creation, sublease or assignment of a taxable possessory interest or of a lease in real property for a term or the remainder of a term in excess of 10 years is a change in ownership of the interest transferred.

(2) The creation, sublease or assignment of a lease for 10 years or less in taxable property is not a change in ownership

(3) The transfer of a lessor's interest regardless of the term of the lease is a change in ownership.

(a) The transfer of a lessor's interest in property subject to a lease in excess of 10 years is a change in ownership only to the extent of the reversionary interest transferred.

(b) The transfer of a lessor's interest in property subject to a lease for 10 years or less is a change in ownership of the entire property transferred, including the leasehold interest.

(c) The transfer of a lessor's interest in property subject to one or more leases in excess of 10 years and one or more leases of 10 years or less is a change in ownership to the extent of the reversionary interest(s) in the property subject to the lease(s) in excess of 10 years and to the extent of the property transferred, including the leasehold interest(s), in the property subject to the lease(s) of 10 years or less.

Note· The determination of the term of possession for a lease or a taxable possessory interest shall be pursuant to the provisions of Section 23 of this code.

(d) Foreclosure.

(1) Morgage or deed of trust foreclosed by judicial action is a sufficient change in ownership only:

(A) After the period of redemption has passed and property has not been redeemed, or

(B) Upon redemption when title vests in the original debtor's successor in interest.

(2) Deed of trust foreclosed by trustee's sale shall cause a reappraisal after the sale has taken place.

(e) Tax deed and tax sale. A tax sale to the state will not cause reappraisal, but a sale by the state of tax-deeded property will cause reappraisal. The reappraisal will take place whether the original owner redeems from the state or a new owner purchases from the state.

(f) Inter vivos trust. A change in ownership occurs upon the creation of, and the transfer of real property to, a revocable or irrevocable inter vivos trust. Similarly, the revocation of the trust by the trustor constitutes a change in ownership. A change in ownership does not occur, however, upon the cessation of a precedent interest which entitles the owner of what was a future interest to the immediate possession and enjoyment of such real property.

(g) Partnership. Real property which is contributed to either a limited or general partnership or which is acquired, by purchase or otherwise, by the partnership is a change in ownership of such real property, regardless of whether the title to the property is held in the name of the partnership or in the name of one or more individual partners, with or without reference to the partnership. Partnership property is owned by the partners as tenants in partnership and any addition or deletion of a partner, therefore, constitutes a change in ownership of the partnership real property.

(h) The following transfers do not constitute a change of ownership:

(1) The transfer of bare legal title.
(2) Any interspousal transfer to create or terminate a community property or joint tenancy interest.
(3) Any transfer caused by the substitution of a trustee pursuant to the terms of a security or trust instrument.
(4) Any transfer between or among joint tenants whether voluntary, involuntary or by operation of law.
(5) Any transfer to an existing assessee for the purpose of perfecting title to the property.
(6) Any transfer resulting in the creation, assignment, or reconveyance of a security interest not coupled with the right to immediate use, occupancy, possession or profits.
(7) Any transfer of stock of a corporation vested with legal title which does not convey to the transferee(s) the exclusive right to occupancy and possession of the real property or portion thereof.

(i) Date of change in ownership. For purposes of reappraising real property as of the date of change in ownership of real property, the following dates shall be used:

(1) Sales. The date all parties' instructions have been met in an escrow or the date the essential elements of a contract of sale have been met.

In the event that the foregoing dates cannot be ascertained, the change in ownership shall be the date of recordation of the deed or similar document evidencing transfer of either legal or equitable title.

(2) Leases. The date the lessee has the right to possession.
(3) Inheritance (by will or intestate succession). The date of death of the decedent.
(4) Inter vivos trusts. The date the trust instrument is executed or revoked by the trustor.

History: Adopted June 29, 1978, effective July 3, 1978.
Amended September 26, 1978, effective October 2, 1978.