STATE OF CALIFORNIA

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April 29, 1980

No. 80/70

TO COUNTY ASSESSORS:

MANDATORY AUDITS

Senate Bill 884 which was effective on January 1, 1980, raised the mandatory audit minimum full value limit to $200,000 and included trade fixtures with personal property in determining the minimum full value. Two previous letters we issued on this legislation, numbers 79/178 and 80/53, prompted numerous inquiries. Therefore, we hope this letter in the form of questions and answers will help clarify the many questions raised.

1. QUESTION: Does the increase of the minimum value limit to $200,000 including trade fixtures apply to audits that must be completed by June 30, 1980?

   ANSWER: Yes. Audits that must be completed by June 30, 1980, are affected by the value increase and the addition of trade fixtures. An example would be a taxpayer who had taxable business personal property of $40,000 and trade fixtures of $165,000 for each of the 1975, 1976, 1977, and 1978 lien dates. Providing one or more of the years had not been covered by a previous audit, this account would require an audit by June 30, 1980.

2. QUESTION: A taxpayer has taxable trade fixtures of $200,000 or more for the four consecutive years 1976, 1977, 1978, and 1979 with no personal property. None of the years have been covered by a previous audit. Would this account qualify as a mandatory audit, and if so, when would the first audit be required?

   ANSWER: Assuming the taxpayer had been requested by the assessor to report on a Board-prescribed property statement, then he would qualify as a mandatory audit. The first audit would require completion by June 30, 1980.

3. QUESTION: For each of the four years 1976, 1977, 1978, and 1979, a taxpayer with three locations in a county has $35,000 of taxable personal property and $40,000 of trade fixtures

at location "A"; $10,000 taxable personal property at location "B"; and at location "C" he has $5,000 personal property and $165,000 of trade fixtures. During 1977 the assessor audited location "B" as a non-mandatory audit for the 1977 lien date. Does this account qualify as a mandatory audit, and if so, would the 1977 audit of location "B" qualify as the necessary audit?

ANSWER: The account is a mandatory audit. The personal property and trade fixtures exceeded $200,000 for four consecutive years, plus, due to the personal property amount, reporting on a Board-prescribed statement was required.

The 1977 audit of location "B" would not qualify as a mandatory audit since it only covered one location where a minor amount of property was located.

4. QUESTION: Assume an account was last audited in 1976. The combined trade fixtures and personal property values for 1977, 1978, and 1979 exceeded $200,000; however, due to the exemption of inventory for 1980, the value of the account falls below $200,000 for 1980. Is this a mandatory account?

ANSWER: No. The value of the account did not remain at or above $200,000 for four consecutive years following the previous audit, thus, it is not a mandatory account until the value again reaches $200,000 for four consecutive years.

5. QUESTION: Assume an account had $125,000 value of taxable personal property for the years 1976, 1977, 1978, and 1979 which were not covered by a previous audit. The taxpayer owns no other property. As of January 1, 1980, is this account a mandatory audit?

ANSWER: No. As of January 1, 1980, the account does not meet the $200,000 minimum limit.

Please direct any questions to Bud Florence or Mike Shannon of this Division.

Sincerely,

Verne Walton

Verne Walton, Chief
Assessment Standards Division

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