STATE OF CALIFORNIA

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TO COUNTY ASSESSORS:

No. 89/34

BASE-YEAR VALUE CORRECTIONS

Numerous inquiries from assessors' staffs have made it apparent that some confusion exists as to the relationship between the base-year value correction provisions of Revenue and Taxation Code Section 51.5 (see letter to assessors 88/50) and the roll correction provisions of Sections 4831 and 4831.5. This letter will provide a general discussion of these concepts in order to clarify the Board's interpretation of the effect of Section 51.5 relative to the existing provisions for roll corrections, assessment appeals, refunds, cancellations, and escape assessments.

Base-Year Value A Control Figure

For purposes of Section 2 of Article XIII A of the California Constitution, Section 110.1 of the Revenue and Taxation Code defines the "full cash value" of real property which is purchased, is newly constructed, or changes ownership after the 1975 lien date as the fair market value as determined pursuant to Section 110 on the date of purchase, completion of new construction, or change in ownership. Subdivision (b) of Section 110.1 designates this value as the "base-year value" for the property. Moreover, Section 75.10 provides that, commencing with the 1983-84 assessment year, the assessor shall appraise property which is newly constructed or has changed ownership at its full cash value on the date the change in ownership occurs or the new construction is completed, and that the value so determined shall be the "new base-year value" for the property. Additionally, Section 51 provides that for each lien date after the lien date in which the base-year value is determined pursuant to Section 110.1, the taxable value of the property shall be the lesser of either its base-year value, compounded annually since the base year by an inflation factor, or its current full cash value as defined in Section 110, taking into account factors causing a decline in value.

What these provisions say is that the taxable value of property (that is, the amount for which it is assessed) shall be the lesser of its current fair market value or its factored base-year value. Thus, the base-year value must be looked upon as a control figure which, after factoring, sets a maximum limit or cap on the total amount of the assessed value. Accordingly, when Section 51.5 mandates the correction of an error or omission in the base-year value, it requires a correction of this control figure as of the time the error or omission occurred. This implies, of course, that subsequent factored base-year values will be changed to reflect this correction.

When changing the base-year value, it should be recognized that this does not necessarily result in a change in the taxable or assessed value of the property. For example, even though a change in ownership comes to light several years after the fact and results in a slight increase in the base-year value of the property in the year of the transfer, overall declines in value of the property in subsequent years may mean that while the property now has a higher base-year value, no changes in the assessed value in later years are necessary since the property was assessed at its appropriate lower market value. This illustrates that the correction of a base-year value is not the same thing as a change in taxable or assessed value or a change in the value reflected on the roll.

Section 51.5 Does Not Authorize Roll Corrections

It is important to note that Section 51.5 does not by itself authorize roll corrections. Rather, it describes procedures which may in some cases result in roll corrections to be made under existing statutes. As discussed above, the base-year value referred to in Section 51.5 is a control figure, not the amount entered on a particular assessment roll. Of course, the amount of the base-year value and the amount entered on the roll for a particular year may be the same amount, but the two concepts should not be confused. Section 51.5 authorizes corrections of base-year values, not roll entries.

Further, the roll correction provisions have time limits. However, under Section 51.5, there is no time limit for correcting post-1975 nonjudgmental base-year value errors. (Under Section 110.1, property that completely escaped taxation for 1975 must be added to the roll at its 1975 factored base-year value in any year in which the escape is discovered.) In years to come, then, an assessor discovering unassessed new construction or a change in ownership may be required to go back 15 or 20 years to correct the base-year value of the property. Obviously, correction of that base-year value cannot result in a change in the assessment entry on the roll for the year in which the error occurred. Rather, after the adjusted base-year values for the intervening years have been corrected, and comparisons made with the amounts assessed for those years still open under the statute of limitations, appropriate escape assessments are required to complete the process.

Please recognize also that there is distinction between correction of a base-year value and an escape assessment. The correction of the base-year value allows us to determine whether an overassessment or underassessment has occurred. An escape assessment is merely a mechanism which permits the correction of the effects of an underassessment once that underassessment has been identified. There are, of course, time limits which apply to escape assessments. These are found in Sections 531.2 and 532. The limits found in Section 51.5, however, and not the limits found in Sections 531.2 and 532, are applicable to corrections of base-year values.

It is important to note here that the correction of a base-year value error involving the assessor's judgment as to value may require escape assessments, cancellations, or refunds of tax, even though a correction to a prior roll is not permissible. The Board's position is that those actions are permitted by the statutes whenever taxes have been overpaid or property has been overassessed or underassessed.

Assessment Appeal Not Required For Base-Year Value Correction

Some assessors' offices are apparently of the opinion that correction of a base-year value error involving the assessor's judgment as to value and resulting in a decrease in the base-year value may not be made except through the assessment appeals process. The Board's position, however, is that the base-year value correction process mandated by Section 51.5 is independent of the assessment appeal provisions.

For example, the assessor is required to act independently where he discovers an unrecorded change in ownership which resulted in the underassessment of property. Obviously, a taxpayer will not file an assessment appeal to complain about the fact that his property has been underassessed. Thus, the assessor is required to act to correct the underassessment independently of the assessment appeals process. The Legislature expects taxpayers to be given equal treatment, however, and thus Section 51.5 mandates that the assessor also correct overassessments when he determines that there has been a base-year value error. The source of the error or omission is also immaterial, at least in the first four years. In this regard, the only distinction recognized by Section 51.5 is the difference between errors which do and those which don't involve the assessor's judgment as to value. Within these limitations, then, the assessor is required to correct any error or omission in the determination of a base-year value when he discovers it. This requirement is placed upon the assessor without any restriction insofar as the provisions of law relating to assessment appeals are concerned. The assessment appeals provisions apply only when there is a dispute between the taxpayer and the assessor as to the proper level of the base-year value and, as required in subdivision (a) of Section 80, an application for reduction in base-year value is filed.

If you have specific questions about these concepts, please call our Real Property Technical Services Unit at (916) 445-4982.

Sincerely,

Verne Walton

Verne Walton, Chief
Assessment Standards Division

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