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July 24, 2003

TO INTERESTED PARTIES:

ASSESSORS' HANDBOOK SECTION 577,
ASSESSMENT OF GENERAL AIRCRAFT

The Board has initiated a complete rewrite of Assessors' Handbook Section 577, *Assessment of General Aircraft*. This revision of the handbook is reorganized and contains new or expanded topics. It includes some text from the original manual and material concerning subjects not covered in the previous handbook. Copies of the revised draft are posted on the Board's Web site at www.boe.ca.gov/proptaxes/ah577sch.htm.

Interested parties may submit proposed revisions to the language presented in the draft until September 12, 2003 to Alan Dannen, e-mail Alan.Dannen@boe.ca.gov, fax (916) 323-8765. The proposed revisions should be submitted as alternative text and should reference the applicable page and line numbers of the draft. Staff will review the suggested changes submitted and incorporate into the draft those changes that are deemed appropriate.

After reviewing comments received from interested parties, the project will proceed as follows:

- Staff will meet with interested parties on October 10, 2003 to discuss proposed changes to the text. The meeting is scheduled to begin at 9:30 a.m. in Room 122, Board of Equalization, 450 N Street, Sacramento. The purpose of the meeting is to arrive at final language for the draft. Staff will distribute an agenda matrix prior to the meeting.
- Staff will submit an issue paper and other required documents for the November 19, 2003 Property Tax Committee meeting at which the Committee will hear discussion of any unresolved language issues.

If you have any questions regarding this project, please contact Alan Dannen at (916) 322-4284, or Jim Anderson at (916) 323-5688. This letter and all future documents regarding this project will be posted on the Board's Web site at www.boe.ca.gov/proptaxes/ah577sch.htm.

Sincerely,

/s/ Dean R. Kinnee

Dean R. Kinnee, Chief
Assessment Policy and Standards Division
Property and Special Taxes Department

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ASSESSORS' HANDBOOK SECTION 577

ASSESSMENT OF GENERAL AIRCRAFT

JULY 2003

CALIFORNIA STATE BOARD OF EQUALIZATION

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FIRST DISTRICT

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FOREWORD

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Assessors' Handbook Section 577 (AH 577), *Assessment of General Aircraft*, is a complete rewrite of the March 1988 version of AH 577. This version of the handbook is reorganized and contains new or expanded topics. It includes some text from the original manual and material concerning subjects not covered in the previous handbook.

The rewrite of this handbook section was undertaken by the Board of Equalization's (Board) staff members of the Assessment Policy and Standards Division of the Property and Special Taxes Department in conjunction with the staff of the Property Taxes Division of the Legal Department and is the product of staff writing at the direction of the Board.

The objective of this handbook section is to give property tax appraisers, auditor-appraisers, and other interested parties an understanding of the issues concerning general aircraft for assessment purposes. It should serve as a guide and as an informational resource for the appraisal and assessment of this special, transitory type of personal property.

As part of the process of producing this manual, Board staff worked with members of the California Assessors' Association, industry representatives, and other interested parties to solicit input. The Board approved this section of the handbook on _____.

Section 15606, subdivision (c), of the Government Code directs the Board to prescribe rules and regulations governing county assessors in the performance of their duties, and subdivision (f) provides that the Board shall issue instructions, such as those set forth in this handbook section. While regulations adopted by the Board are binding as law, Board-adopted assessors' handbook sections do not possess the force of law; rather they are advisory only. Nevertheless, courts have held that assessors' handbooks may be properly considered as evidence in the adjudicatory process.¹ The citations and law references in this publication were current as of the writing of the handbook section.

David J. Gau
Deputy Director
Property and Special Taxes Department
Date

¹ *Coca Cola Co. v. State Board of Equalization* (1945) 25 Cal.2d 918; *Prudential Ins. Co. v. City and County of San Francisco* (1987) 191 Cal.App.3d 1142; *Hunt-Wesson Foods, Inc. v. County of Alameda* (1974) 41 Cal.App.3d 163.

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CHAPTER 1: INTRODUCTION

This handbook section pertains to the assessment and taxation of general aircraft as described in sections 5301 through 5456 of the Revenue and Taxation Code.² For purposes of property taxation, general aircraft are classified as personal property. The appraisal and assessment of general aircraft present challenges unique to this special type of property. These challenges arise because of the transitory nature of general aircraft, their various configurations and applications of use, the diversity of manufacturers, the varying condition of aircraft, and the specific types of avionics installed on the aircraft.

DEFINITIONS

PERSONAL PROPERTY

Personal property is defined by exception; *personal property* is all property except real estate.³ Section 104 defines real property, or real estate, as:

- (a) The possession of, claim to, ownership of, or right to the possession of land.
- (b) All mines, minerals, and quarries in the land, all standing timber whether or not belonging to the owner of the land, and all rights and privileges appertaining thereto.
- (c) Improvements.

AIRCRAFT

Revenue and Taxation Code section 5303 defines *aircraft* as:

... any contrivance used or designed for the navigation of or for flight in the air which has been flown at least once, other than a parachute or similar emergency safety device.

Aircraft does not include any of the following:

1. Air taxis, as defined in section 1154.
2. Aircraft operated exclusively by certified air carriers
3. Rockets or missiles

Ultra-lights, hang gliders, and hot air balloons are examples of less conventional flying contrivances which, once flown, are aircraft within the meaning of section 5303.

² All statutory references in this handbook refer to the Revenue and Taxation Code unless otherwise indicated.

³ Section 106.

1 AIR TAXI

2 *Air taxi* is defined in section 1154 as:

3 ...aircraft used by an air carrier which does not utilize aircraft having a maximum
4 passenger capacity of more than 30 seats or a maximum payload capacity of more
5 than 7,500 pounds in air transportation and which does not hold a certificate of
6 public convenience and necessity or other economic authority issued by the Civil
7 Aeronautics Board of the United States, or its successor, or by the California
8 Public Utilities Commission, or its successor.

9 This definition can be further broken down to scheduled and unscheduled air taxis. Scheduled
10 air taxis are treated for property taxation purposes similar to certificated aircraft, and
11 unscheduled air taxis are treated similar to general aircraft.

12 CERTIFICATED AIRCRAFT

13 Section 1150 defines *certificated aircraft* to mean:

14 ... aircraft operated by an air carrier or foreign air carrier engaged in air
15 transportation ... while there is in force a certificate or permit issued by the Civil
16 Aeronautics Board of the United States, or its successor, or a certificate or permit
17 issued by the California Public Utilities Commission, or its successor, authorizing
18 such air carrier to engage in such transportation.⁴

19 SITUS

20 *Situs* is the place where property is legally situated; the more or less permanent location of the
21 property.

22 HABITUALLY SITUATED

23 Rule 205,⁵ subsection (b), provides that general aircraft are assessable in the county where they
24 are *habitually situated*. The location where an aircraft is habitually situated is the airport at
25 which the aircraft is usually present when not in flight, i.e., the location where the aircraft spends
26 most of its ground time. Thus, if an aircraft spends a substantial amount of time at multiple
27 airports, it is *habitually situated* at the airport where it spends the most ground time.

28 LIEN DATE

29 Sections 2192 and 722 specify that the annual lien date is January 1. Personal property is
30 assessable only if taxable on this date.⁶

⁴ The Federal Aviation Agency is the successor of the Civil Aeronautics Board of the United States.

⁵ All references to "rules" refer to sections in Title 18, Public Revenues, California Code of Regulations, commonly known as Property Tax Rules.

⁶ Manufactured homes and floating homes, although classified as personal property, are assessed in the same manner as real property. See section 229 and sections 5802 et seq.

1

CLASSIFICATION

2 Aircraft are included on the local unsecured roll as personal property and are assessable to the
 3 owner, whether the owner is an individual, a business, or otherwise. The tax rate for property on
 4 the unsecured roll is levied at the rate for the preceding year's secured roll within the same taxing
 5 jurisdiction.⁷ Since aircraft are classified as personal property, they are not subject to special
 6 assessments.

7 Unlike most types of personal property, there is no requirement that aircraft be used for business
 8 purposes to be assessable. However, not all aircraft are taxable. Some aircraft may be fully or
 9 partially exempt from property taxation due to the nature of their ownership or use. Preferential
 10 assessments and exemptions are discussed in Chapter 5.

11

ENTRY ON ASSESSMENT ROLL

12 An *assessment roll*, as defined in section 109, is the entire listing of taxable property within the
 13 county.⁸ The assessment roll consists of two parts: the secured roll and the unsecured roll.
 14 Aircraft should be included on the regular assessment roll and enrolled as unsecured property.
 15 Aircraft assessments should be placed in a separate section of the unsecured roll, rather than
 16 intermingling them with other unsecured assessments. Rule 252, subsection (a), provides that
 17 each local assessment roll shall contain:

18 ... (14) In a separate section of the roll, the assessed value of any personal
 19 property for which tax revenues are subject to allocation in a manner different
 20 from that provided for general property tax revenues (e.g., general aircraft).⁹

21 Advantages of enrolling aircraft in a separate section on the unsecured roll include:

- 22 • Simplifying roll-searching for the assessor, tax collector, and others when a permanently
 23 assigned block of assessment numbers serves to identify aircraft.
- 24 • Making statistical data more readily available.
- 25 • Eliminating taxpayer confusion that often occurs when the value of an aircraft is included
 26 in the total personal property value of other types of taxable personal property.
- 27 • Avoiding the necessity of adding the tax on the aircraft to an impound account when a
 28 lending institution pays the tax on the real property and secured personal property.

⁷ California Constitution, article XIII, section 12.

⁸ The assessor prepares two separate rolls each year: the regular assessment roll and the supplemental assessment roll.

⁹ See sections 5451, et seq.

EXAMPLE 1.1
LIEN DATE

On lien date January 1, 2003, an aircraft owned by "A" is located in Sacramento. The assessee (owner "A") sells the aircraft to an airplane dealer (owner "B") on January 15, 2003. It becomes business inventory to owner "B" on that date.

Owner "A" receives a tax bill for the fiscal year July 1, 2003 through June 30, 2004 for the assessment of the aircraft. Although owner "A" does not own the aircraft during the fiscal year that the bill covers, the bill is valid based on ownership on the lien date. Taxes on unsecured property are due on the lien date.

If the facts were changed so that the dealer was the owner on the lien date and sold the aircraft to "A" on January 15, the aircraft would be exempt from property taxation as business inventory of owner "B," even through owner "A" owned the aircraft from January 15 through June 30, 2004.

Generally, ownership on the lien date determines the taxability, situs, and assessee of an aircraft.

1

2 Property taxes on the unsecured roll are payable in one installment, due no later than the
3 August 31 following the lien date.¹⁵

4 **ASSESSEE**

5 An aircraft is assessed to the person owning, claiming, possessing, or controlling it on the lien
6 date—the *assessee*.¹⁶ Assessments are usually made in the name of the person listed as the
7 owner of record on the lien date, based on the official documentation or registration for the
8 aircraft.

9 Owners who sell their aircraft after the lien date and prior to the fiscal year that the tax bill
10 covers are still liable for the taxes imposed.¹⁷ Although the assessment is based on the value of
11 the aircraft on the preceding lien date, the tax bill received is for the ensuing fiscal year. Thus, in
12 the sale of an aircraft, any proration of taxes is left to the parties involved. For an open-market
13 transaction,¹⁸ the appraiser should assume that the taxes were considered by the seller in
14 determining the sales price.

¹⁵ Section 2922.

¹⁶ Section 405.

¹⁷ *Estate of Backesto* (1923) 63 Cal.App. 265.

¹⁸ Section 110.

1 **SITUS**

2 *Situs* is the place where property is situated for tax purposes. Since aircraft are taxed where they
3 are situated on the lien date, situs is an essential factor in making an assessment of an aircraft.
4 Situs is seldom a problem for property that remains in one location, as in the case of real
5 property, but many problems are encountered by the appraiser when determining the proper situs
6 of movable property, such as an aircraft.

7 A complete discussion of *situs* is included in Chapter 4.¹⁹

8 **DESCRIPTION OF PROPERTY**

9 An accurate assessment requires a *description* of the property. The primary source of descriptive
10 information for the appraiser is on annual forms filed by aircraft owners. The forms request
11 information needed by the appraiser to make an annual review and accurate assessment of the
12 aircraft.

13 A more detailed discussion regarding *description* of the property and aircraft forms are included
14 in Chapter 2.

15 **VALUE OF PROPERTY**

16 For purposes of California property taxation, aircraft are valued at their fair market value every
17 year as of the lien date. An appraiser's most important function is to determine the value of the
18 aircraft. The terms "fair market value" and "full cash value" have the same meaning in property
19 tax law and in the context of this manual.²⁰

20 A more detailed discussion of *value* is presented in Chapter 3.

¹⁹ For a complete discussion of this topic, see Assessors' Handbook Section 504, *Assessment of Personal Property and Fixtures*, Chapter 3.

²⁰ Section 110.

CHAPTER 2: DISCOVERY AND DESCRIPTION

DISCOVERY

Developing a program for the discovery of information regarding taxable aircraft and the verification of new and existing information is important to ensure accurate and valid assessments. Although the means of discovery may differ from county to county, the primary sources of information for aircraft are:

- Airport owners' and operators' reports
- Field canvassing
- Field appraisers
- Federal Aviation Agency (F.A.A.) registration lists
- Referrals from other counties

AIRPORT OWNERS' AND OPERATORS' REPORTS

Section 5366 requires owners and operators of public and private airports to annually supply the assessor with lists of aircraft based at their airports. This information is provided on Form BOE-577-B, *List of Aircraft*.

The airport owners are required to provide to the assessor (1) the owner's name and address and (2) the F.A.A. number, make, model, and year of manufacture for each aircraft. This information is extremely useful to the assessor in locating all aircraft situated in the county.

FIELD-CANVASSING

Field-canvassing is a technique that involves physically viewing aircraft where they are located. Information obtained by the appraiser should be entered into the aircraft file to ensure that an accurate assessment is made without incurring any duplication. The F.A.A. number should always be obtained, along with all other available information about the aircraft, e.g., situs, make, model, year of manufacture, general condition, flight hours since last overhaul, and ownership. The appraiser should conduct field-canvassing near the lien date.

Since ultra-lights, hang gliders, and power hang gliders do not have an F.A.A. number, they pose a significant discovery problem for assessors. Staff should be made aware of this problem and discovery programs should be established, such as field-canvassing airports, landing strips, and other areas where these aircraft are known to be situated.

FIELD APPRAISERS

General aircraft may also be discovered by field appraisers while conducting appraisals of other properties. Any aircraft located that are not listed in the assessors' files should be investigated to determine its taxable status.

1 **FEDERAL AVIATION AGENCY**

2 County assessors can obtain registration information from the F.A.A. master registration
3 program through the F.A.A. Web site (www.FAA.gov). Once on the F.A.A. Web site, the
4 registry information can be accessed by:

- 5 • Clicking on *General Aviation*
- 6 • Under the column *Services*, click on *Query Aircraft Database*
- 7 • Click on *Link to Perform Query*
- 8 • Click on *State and County*
- 9 • Select *California*
- 10 • Select appropriate *County*

11 The F.A.A. updates the registration list on a monthly basis to show any changes in ownership of
12 aircraft based in California. The information provided includes a coded description of each
13 aircraft, and the zip code number and the name of the registered owner.

14 **REFERRAL FROM OTHER COUNTIES**

15 Often county assessors receive information from a taxpayer indicating that an aircraft has been
16 relocated to another county. This information can be useful in determining accurate situs.
17 Cooperation between county assessors is essential for the proper assessment of all aircraft within
18 the state. Without it, many aircraft would escape assessment and accurate information regarding
19 the description, ownership, and situs of such aircraft could be lost (see Change in Situs section in
20 Chapter 4 for a further discussion).

21 An assessor frequently receives information indicating that an aircraft has been taken to another
22 county or was actually in a different county than was initially reported. This information should
23 be forwarded to the assessor gaining jurisdiction, along with all other information that may be
24 available, such as aircraft description and previous assessed values.

25 It is important that the county receiving the information follow through to the point of making an
26 assessment. If neither the aircraft nor the aircraft owner can be located, the county originating
27 the information should be notified so that further action can be taken to prevent an escape
28 assessment. The originating county should send a notice to the aircraft owner's last known
29 address to attempt to establish the exact location of the aircraft.

30 **DESCRIPTION**

31 In order for an appraiser to make a comprehensive review and assessment of an aircraft, a
32 detailed and accurate description of the aircraft is essential. Aircraft statements and other aircraft
33 forms used by the assessor provide vital information.

1 COUNTY AIRCRAFT STATEMENT

2 Assessors send aircraft statements to owners requesting information on their aircraft. Section
3 5365 provides that:

4 Upon request of the assessor of the county in which an aircraft is habitually based,
5 the owner shall file with him a statement setting forth the make, model, and year
6 of manufacture of the aircraft.

7 Assessors use these statements to gather information and to ultimately determine an assessable
8 value for aircraft. Furthermore, if the assessor requires that these forms be completed by aircraft
9 owners annually, they are often very useful in a timely determination of when owners have
10 installed new avionics on an aircraft or when an aircraft has undergone an overhaul.

11 If any person who is requested by the assessor to file a statement pursuant to section 5365 fails to
12 file such statement by the time specified by the assessor, a penalty of 10 percent of the market
13 value of the unreported aircraft shall be added to the value of the aircraft on the current roll.²¹
14 While the statute does not specify the length of time the assessor should allow to file the aircraft
15 statement before imposition of the penalty, a reasonable amount of time would be 30 days.

16 While section 5365 only mandates that the assessee provide the assessor with the make, model,
17 and year of manufacture of the aircraft, it is good policy for the assessor to request all pertinent
18 information from an aircraft owner annually, since usually assessees will provide the information
19 requested by the assessor. However, the assessor should remember that the section 5367 penalty
20 cannot be imposed on an aircraft owner for not supplying information requested by the assessor
21 beyond the requirements of section 5365.

22 A sample of an aircraft statement is included in Appendix A.²²

23 OTHER AIRCRAFT FORMS

24 Many county assessors use the *Vessel or Aircraft Form* (BOE-576-A) to enhance their aircraft
25 assessment program. The form can be used for the following purposes:

- 26 1. To notify the owner of record of the assessor's proposed assessed value of an aircraft for
27 the forthcoming year.
- 28 2. To obtain information on transfers of aircraft.
- 29 3. To locate an aircraft.

30 The *Vessel or Aircraft Form* should be mailed to all owners of aircraft as shown on the assessor's
31 records prior to the lien date each year.

²¹ Section 5367.

²² The Board does not prescribe a property statement for general aircraft.

1 In addition, the *Aircraft Form* (BOE-577-AHH) is a double postcard inquiry form that is folded
2 and mailed to known or probable aircraft owners at any time of the year. Upon receipt of the
3 card, the aircraft owner should detach the half containing his or her name and address, and return
4 the preaddressed remaining half with the information requested by the assessor. This form can
5 be used to obtain the following information:

- 6 1. Verification of the registered owner's name and address.
- 7 2. Specific description of the aircraft, e.g., F.A.A. number, make, model, and equipment
8 installed.
- 9 3. Detailed description of the engine, e.g., make, model, year built, and air hours.
- 10 4. Sales information, e.g., purchase price and date of purchase.

CHAPTER 3: VALUATION OF GENERAL AIRCRAFT

The following is a brief overview of basic appraisal terms and accepted appraisal practices. For a more in-depth discussion of appraisal practices and the approaches to value property, see Assessors' Handbook Section 501, *Basic Appraisal*; Assessors' Handbook Section 502, *Advanced Appraisal*; and Assessors' Handbook Section 504, *Assessment of Personal Property and Fixtures*.

VALUE CONCEPT

The fundamental principles of appraisal apply to the valuation of aircraft as they do to any other personal or real property. The assessor should consider the three primary approaches to value—cost, comparative sales, and income—when determining the market value of an aircraft. Although the approaches to value are similar, the assessment of aircraft and other personal property differ significantly from real property in that the market value of an aircraft must be estimated on the lien date every year. Unlike most real property, the assessment of aircraft is not governed by the base year value limitations of article XIII A of the California Constitution (commonly known as Proposition 13).

The fair market value of aircraft, like all other types of property, is defined in section 110, subdivision (a):

... "full cash value" or "fair market value" means the amount of cash or its equivalent that property would bring if exposed for sale in the open market under conditions in which neither buyer nor seller could take advantage of the exigencies of the other, and both the buyer and the seller have knowledge of all the uses and purposes to which the property is adapted and for which it is capable of being used, and of the enforceable restrictions upon those uses and purposes.

APPROACHES TO VALUE

Property Tax Rule 3, *Value Approaches*, discusses five approaches to value:

1. Comparative sales approach
2. Stock and debt approach
3. Replacement or reproduction cost approach
4. Historical cost approach
5. Income approach

The replacement/reproduction cost, comparative sales, and income approaches are applicable to personal property, including aircraft. Although these three approaches to value should be

1 considered, the use of all three may not always be appropriate. The nature of property, its
 2 market, and the availability of data will normally indicate which approach(es) is most
 3 appropriate. This is supported by Rule 3, which states in part:

4 In estimating value as defined in section 2, the assessor shall consider one or more
 5 of the following [approaches to value], *as may be appropriate for the property*
 6 *being appraised*: (Emphasis added.)

7 Often only one approach is feasible. The appraiser should analyze all available information to
 8 determine the most applicable and reliable approach. The courts recognize this fact and the
 9 California Supreme Court has stated that:

10 Assessors generally estimate value by analyzing market data on sales of similar
 11 property, replacement costs, and income from the property, and since no one of
 12 these methods alone can be used to estimate the value of all property, the assessor,
 13 subject to requirements of fairness and uniformity, may exercise his discretion in
 14 using one or more of them.²³

15 **COST APPROACH**

16 One variant of the cost approach, the *replacement cost approach*, estimates the value of an asset
 17 or a group of assets based on the assets' original or historical cost, adjusted to account for
 18 changes in value since purchase and/or installation. It is the method of valuation most frequently
 19 relied on when no reliable sales data are available. Replacement cost new, in the case of a new
 20 or nearly new aircraft and when considered along with normal depreciation, will be a strong
 21 indication of market value in the case of aircraft that continue to be manufactured. As aircraft
 22 grow older, however, an estimate of depreciation is less predictable and the accuracy of this
 23 approach diminishes.

24 The cost approach method typically used by assessors estimates the value of an aircraft based on
 25 its original or historical cost.²⁴ When an aircraft of any type is new, this approach may be a good
 26 representative of market value, provided the original cost was an arm's-length open-market
 27 transaction representing fair market value.²⁵ In the case of older aircraft, the cost approach is
 28 generally not used, and nationally published value guides that provide annual market values
 29 based on a large collection of sales data become a more feasible method of establishing a value
 30 for aircraft.

31 Unique aircraft, kit aircraft, and aircraft built by little known manufacturers should be valued by
 32 the cost approach unless reliable sales data are available. Such aircraft previously owned can be
 33 accurately valued by the comparative sales approach; however, the appraiser must be familiar
 34 with the aircraft used as comparisons. In most cases, the appraiser will have to make a physical

²³ *De Luz Homes, Inc. v. County of San Diego* (1955) 45 Cal.2d 546, 563-564.

²⁴ Rule 6 uses the terms *historical cost* and *original cost* synonymously—the cost of the property when new. For purposes of this manual, the terms are used as defined in Rule 6.

²⁵ Section 110.

1 survey of the subject aircraft and compare it to recent sales of similar aircraft. Finding
2 comparable sales of unique aircraft may be difficult.

3 **COMPARATIVE SALES APPROACH**

4 The *comparative sales approach* may be defined as an approach that uses direct evidence of the
5 market's opinion of value of a property. In this approach, the appraiser estimates the market
6 value of the subject property by comparing it to similar properties that have recently sold. In
7 addition to actual sales, the appraiser may consider listings, options, and the opinions of owners,
8 real estate agents, and other appraisers as to the selling prices that comparable properties might
9 command. The comparative sales approach is based on the premise that the fair market value of
10 a property is closely and directly related to the sales prices (under the conditions of fair market
11 value) of comparable, competitive properties.

12 Sale prices of comparable properties provide an indication of what the market is willing to pay
13 for that type of property at a specific time. For personal property such as aircraft, nationally
14 published value guides that reflect the going market price for comparable aircraft can be used as
15 the basis for determining market value when no direct sale comparables in the subject's market
16 area are found. Adjustments should be made to the base price given in a value guide when the
17 condition of the aircraft or the local market merit such action.

18 In January 1997, in fulfillment of the mandates in section 5364, the Board held a public hearing
19 and officially adopted two aircraft price guides for assessors to use when determining the
20 assessment of general aircraft (see discussion on value guides later in this chapter). In addition,
21 the Board advised assessors to use 90 percent of the retail price listed when using the aircraft
22 value guides as the starting point for the appraisal of general aircraft.

23 In comparing the value guides to other information (such as actual sales of aircraft and opinions
24 from dealers and assessors), Board staff found the retail values listed in the guides were, on the
25 average, slightly but consistently higher when compared to fair market value. Airplane dealers
26 commonly sell aircraft at the retail prices, but private party transactions typically indicate lower
27 prices. The difference in price could be due to several factors, such as a dealer detailing an
28 aircraft so it is actually in above-average condition, a dealer offering a warranty on the aircraft,
29 or a dealer offering free flying lessons or other services with the aircraft.

30 Consequently, the listed retail values shown in the value guides should be reduced by 10 percent
31 to value an aircraft in *average* condition on the lien date. Other adjustments that may be
32 appropriate include consideration of the:

- 33 • Overall condition of the aircraft
- 34 • Equipment installed

- 1 • Hours since a major engine overhaul
- 2 • Total airframe hours

3 Another adjustment to consider is the location of the subject aircraft. The base price shown in
4 the guides may reflect values in a specific region, and the appraiser should adjust the value for
5 regional differences as suggested in the guide. Sales tax is not included in the values shown in
6 any of the value guides. The general rule in determining market value is that where price is the
7 basis of value, sales/use tax, freight, and installation cost are elements of that value, and should
8 be included in the estimate of market value.²⁶

9 There are exceptions to the general rule. Equipment rented to federal instrumentalities and
10 aircraft used by common carriers (neither of which are subject to sales tax), for example, are
11 valued without sales tax as an element of value. The reason in both cases is that the consumer
12 (the federal government or the air carrier) is never liable for sales tax on purchases of such
13 equipment. Consequently, the assessment of such property should not include sales tax, unless
14 or until the property is put to private use or rented to a private party.²⁷

15 The addition of taxes and freight charges to the list price of an aircraft is consistent with the
16 appraisal approach that gives consideration to the consumer's total cost in arriving at market
17 value. Since an owner has the sales tax and freight (transportation) information available from
18 the invoice, the owner should be requested to include this information on the county aircraft
19 statement.

20 When reliable comparables are available, whether from sales found in the local marketplace,
21 published value guides, or other sources, the comparative sales approach may be preferable to
22 other value approaches. The following is an example where such sales are available, and the
23 aircraft's value is determined using the comparative sales approach.

²⁶ *Xerox Corp. v. Orange County* (1977) 66 Cal.App.3d 746.

²⁷ See the Sales and Use Tax Law for more information regarding sales tax requirements.

EXAMPLE 3.1**USE OF THE COMPARATIVE SALES APPROACH**

Ben Airworthy purchased a 1970 Cessna T188 Huskey in 1993 for \$52,750. On the 2003 lien date, the aircraft was hangared in Sacramento County and was assessable.

The following information was available to and gathered by the appraiser:

- The assessee is planning to sell the aircraft.
- The assessee's golf partner offered to purchase the aircraft for \$54,000.
- A similar aircraft, located in Florida, is advertised in *Flight Magazine* for \$71,000.
- An inspection of the aircraft, flight log, and conversations with the assessee indicate average condition, average equipment, and approximately mid-time since engine overhaul.
- Research from the Spring Edition 2003/2004 *Aircraft Bluebook-Price Digest* indicates a standard price of \$60,350, an average-equipped price of \$61,710, and an average retail price of \$65,000.

The assessee argues that the aircraft's value is \$54,000.

Using the comparative sales approach to value, what is the estimated taxable value of the aircraft?

The assessee's estimate of value of \$54,000 does not represent market value because it is only an offer and not an actual sale. The aircraft advertised in a magazine also is not a market value because, again, it is only an offer to sell and not an actual sale.

The appraiser in this instance would use as a starting point the average retail value of \$65,000 found in the Spring Edition of the *Aircraft Bluebook*, reduce that value by 10 percent,²⁸ and then add the appropriate sales tax. No adjustment is for needed for engine condition due to mid-time since the last major engine overhaul. For lien date January 1, 2003, the appraiser would estimate the value of the aircraft at **\$63,000**.

1

2 **INCOME APPROACH**

3 The income approach to value includes any method of converting an anticipated income stream
4 into a present value estimate. The income approach generally is less effective in valuing aircraft
5 for several reasons:

²⁸ See discussion earlier in this chapter regarding 10 percent reduction.

- 1 • A business dependent upon the use of an aircraft may be shown to benefit from the aircraft
2 because of their use, but this is unlikely to be an indication of value for any particular
3 aircraft.
- 4 • One model of an aircraft may have different full-time commercial or pleasure applications,
5 and the income approach might indicate different values for the same model, depending
6 upon its use.
- 7 • The income approach relies on information concerning income and expenses on the
8 aircraft being valued. To determine the capitalization rate of the aircraft, net income
9 information from the operations of other similar aircraft sold would also be required.
10 Cooperation from owners regarding such data is often limited. Furthermore, there are no
11 published sources with regard to market income information on aircraft. If the appraiser
12 does collect income data, he or she must then carefully analyze it to determine if the
13 information is typical of the market for the subject aircraft.

14

SOURCES OF INFORMATION

15 When using the comparative sales approach to value aircraft, data sources include published
16 value guides and the Internet.

17 VALUE GUIDES

18 In compliance with section 5364, the Board has approved the *Aircraft Bluebook-Price Digest* as
19 the primary guide for valuing general aircraft, and the *Vref Aircraft Value Reference* as an
20 alternate for aircraft not listed in the *Price Digest*.²⁹ The Spring Edition of the *Aircraft Bluebook*
21 and Volume I of the *Vref Aircraft Value Reference* are recommended.

22 As discussed earlier, the values listed in the guides should be reduced by 10 percent to provide
23 reasonable estimates of market value for aircraft in average condition on the lien date. The retail
24 values listed in *Vref* and the *Aircraft Bluebook* are for a fully airworthy aircraft with average
25 equipment for the model and in average condition considering the aircraft's age and likely use.
26 For any given model, there are extreme variations in value depending on the equipment installed
27 in the aircraft and the amount of time (usually operating hours) before a costly major engine
28 overhaul is required. As a result, in order to achieve fair market value, it is necessary to review
29 the equipment and condition of each aircraft and make appropriate adjustments to the basic value
30 indicated by the guide. Appraisers should make appropriate adjustments for, among other things,
31 overall condition, equipment, hours since the last major overhaul, and total hours.

32 Sometimes appraisers obtain valid information, such as recent sales, that provide more accurate
33 value indicators for a specific aircraft than the data in the value guides. Appraisers should make
34 any adjustments to the base value in the guides as necessary to achieve fair market value
35 assessments of aircraft. However, variances from the values indicated by use of the
36 recommended value guides should be well documented in the assessor's records.

²⁹ Public hearing conducted by the State Board of Equalization, January 10, 1997.

1 OTHER SOURCES OF INFORMATION

2 The Internet can be a useful source of information when establishing the market value of aircraft.
3 Various Web sites show current listings of aircraft for sale. This information can provide the
4 appraiser with general marketplace information.

5 In addition, listings may be found in numerous flying magazines. Some of these magazines also
6 have classified advertisements on the Internet.

7 REASSESSMENT DUE TO MISFORTUNE OR CALAMITY

8 If an aircraft has been damaged or destroyed by a misfortune or calamity, the owner may request
9 that the aircraft be reassessed downward to reflect its current value in the damaged condition.
10 This reassessment procedure is available only in counties that have adopted an ordinance
11 pursuant to section 170. Subdivision (a) of section 170 states in part:

12 ... the board of supervisors may, by ordinance, provide that every assessee of *any*
13 *taxable property*, or any person liable for the taxes thereon, whose property was
14 damaged or destroyed without his or her fault, may apply for reassessment of that
15 property.... (Emphasis added.)

16 Accordingly, aircraft damaged or destroyed by a misfortune or calamity would be subject to the
17 relief provisions of this section, assuming the county board of supervisors has adopted an
18 authorizing ordinance.

19 ASSESSMENT APPEALS

20 General aircraft are governed by the same statutes and regulations for the assessment appeals
21 process as all other property use types that are subject to local property taxation.³⁰ Aircraft
22 owners must file an *Application for Changed Assessment* form³¹ with the local board of
23 equalization or assessment appeals board, within the appropriate statutory timeframe,³² to initiate
24 the equalization process.

25 Specific procedures and guidelines for the local assessment appeals process are contained in the
26 *Assessment Appeals Manual* published by the Board.

³⁰ Sections 1601 et seq.; Rules 301 through 326.

³¹ Form BOE-305-AH.

³² Sections 170, 1603, and 1605.

CHAPTER 4: SITUS

Situs, the place where property is legally situated, is one of the essential factors of a valid assessment. Section 404 governs the assessment jurisdiction for property and provides that:

All taxable property, except State assessed property, shall be assessed by the assessing agency of the taxing agency where the property is situated.

Since aircraft are classified as personal property and mobile, they have no fixed location. One of the most important duties of the appraiser is to determine an aircraft's tax situs. For property tax purposes, an aircraft's situs is established on the lien date. On the lien date, aircraft with situs in California are assessable by the taxing agency of the jurisdiction in which they are located.

Permanent versus temporary situs must be considered when determining taxable situs for property taxation purposes. Article XIII, section 14, provides that:

All property taxed by local government shall be assessed in the county, city, and district in which it is situated.

This constitutional provision does not refer to the temporary location of aircraft but to its permanent situs. *Situated* means that property has acquired tax situs and, thus, the taxation of an aircraft must be based on the fact that it is to some extent kept or maintained in California, rather than here casually or in transit.

The guidelines for situs of aircraft depend on aircraft type. For assessment purposes, aircraft are typed or classified as general aircraft, certificated aircraft, or air taxis. This handbook focuses on the issues affecting situs of general aircraft.

GENERAL AIRCRAFT

The general rules of situs apply to general aircraft as they do to other personal property. General aircraft are assessable at the location where the aircraft is *habitually* situated. When an aircraft has tax situs in California and divides its time between two or more airports in California, situs becomes determinable based on a time test, but no apportionment is necessary. Rule 205, subsection (b), states in pertinent part:

... An aircraft that spends a substantial amount of ground time at each of two or more airports has its tax situs at the airport where it spends the greatest amount of ground time.

Thus, where an aircraft does not remain in one location in California, it is assessable in the place where it spends the greatest amount of ground time.³³

³³ *GeoMetrics v. County of Santa Clara* (1982) 127 Cal.App.3d 940.

1 If an aircraft establishes tax situs both in California and outside California, apportionment is
 2 necessary between California and other jurisdictions under the rulings established in *Ice*
 3 *Capades, Inc. v. County of Los Angeles* and *GeoMetrics v. County of Santa Clara*.³⁴

4 The interpretation of tax situs is that property must have "such contacts as confer jurisdiction to
 5 tax."³⁵ Due process requires that the nature of the contacts sufficient to support a state's power
 6 to tax must provide the opportunities, benefits, or protection afforded by the state.³⁶ For movable
 7 personal property such as aircraft,³⁷ the amount and nature of the contact of property and its
 8 owner with a state necessary to establish tax situs is a factual determination.³⁸

9 In general, relevant factors to be considered should include the aircraft's length of time in the
 10 state, the owner's intent to bring the aircraft into the county, and the owner's contact with the
 11 state. These factors were determinative in *Ice Capades*.

12 For aircraft maintained and operated solely within California, they have an established tax situs
 13 in California, and the appropriate county in which the aircraft is habitually situated has
 14 assessment jurisdiction without apportionment.³⁹ Aircraft having mere transitory contact in
 15 California do not have either an established domicile or situs in this state and, therefore, are not
 16 subject to taxation.

17 For aircraft that are domiciled in California, have an established tax situs in California and have
 18 tax situs in another state or states, the county may assess portions of value reflecting the periods
 19 that the aircraft are not present in the other state where the aircraft has established situs. When
 20 an aircraft is domiciled in another state and has situs in that state as well as in California, value
 21 should be apportioned for only the time spent in California.⁴⁰ Finally, if an aircraft has domicile
 22 and tax situs in California but operates for some part of the year in a foreign country, then the
 23 value is apportioned for only the time spent in California.⁴¹

24 CERTIFICATED AIRCRAFT

25 Certificated aircraft owned by a commercial air carrier are assessable as general aircraft if:

- 26 • The aircraft is taken out of scheduled service and grounded in the county prior to the lien
 27 date,⁴² and

³⁴ *Ice Capades, Inc. v. County of Los Angeles* (1976) 56 Cal.App.3d 745; *GeoMetrics v. County of Santa Clara* (1982) 127 Cal.App.3d 940.

³⁵ *Zantop Air Transport, Inc. v. County of San Bernardino* (1966) 246 Cal.App. 2d 433, 437.

³⁶ *Ice Capades, Inc.*, *supra* at 437.

³⁷ Rule 205, subsection (a).

³⁸ *Ice Capades, Inc.*, *supra* at 753.

³⁹ Rule 205, subsection (b).

⁴⁰ *Ice Capades, Inc.*, *supra* at 755.

⁴¹ *GeoMetrics v. County of Santa Clara*, *supra* at 940.

⁴² Section 1150 provides that while aircraft are in service and being operated by an air carrier, they are considered certificated aircraft. However, once they are taken out of service and grounded, they become general aircraft.

CHAPTER 5: EXEMPTIONS

Certain provisions of the California Constitution allow for aircraft exemptions, either on a partial or full basis. The Constitution provides that the Legislature may classify any personal property for differential taxation or for exemption.⁴⁵ Personal property may be exempt from taxation by reason of its ownership, use, and/or type. Full exemptions include:

- Aircraft considered inventory
- Aircraft of historical significance
- Aircraft in California for the sole purpose of being repaired, overhauled, modified, or serviced
- Aircraft that have been made available for display in a publicly owned aerospace museum
- Aircraft owned by the United States or foreign governments
- Aircraft owned by the State of California or a political subdivision

It is important for the appraiser to be aware of these exemptions in order to determine the assessability of the aircraft being appraised. It is also important to note that not all exemptions are automatic. In these cases, a taxpayer has the burden of demonstrating that an aircraft qualifies for the exemption being sought. Some exemptions are allowed only if appropriate forms are filed in a timely manner. In such cases, an aircraft remains assessable until an exemption claim is filed by the taxpayer and approved by the county assessor.

BUSINESS INVENTORIES

Virtually all aircraft held as dealers' inventory are flown from the factory to airports located in California. Having been flown at least once, the aircraft qualify under section 5305 as general aircraft. The guidelines for exemption of aircraft as business inventory are the same as for other properties, e.g., to be eligible for the business inventory exemption the aircraft must be either held for sale or lease as of the lien date.⁴⁶

The following are some suggestions for verifying whether an aircraft is being held for purposes other than for sale or lease:

1. A dealer who operates an air taxi service must file Department of Transportation (DOT) Form OST-4507 with the department. The form is a listing of all aircraft by tail number used in the air taxi service. Whenever there is a change in the dealer's listing of aircraft that are used in the service, an updated form must be filed. A review of an operator's DOT forms will indicate any aircraft committed to air taxi service. Inclusion of an aircraft on the DOT list would be an indication that the aircraft is not being held for sale or lease.

⁴⁵ Article XIII, section 2.

⁴⁶ Section 129; Rule 133.

1 aircraft will be made available for public display at least 12 days during the 12-month
2 period commencing with the first day the property was made available for public display.

3 An annual affidavit is required for exemption, although the fee is only required upon initial
4 application in any given county. The claimant will provide all information required and answer
5 all questions contained in an affidavit furnished by the assessor. The claimant will sign and
6 swear to the accuracy of the contents of the affidavit before either a notary public or the assessor,
7 or his or her designee, at the claimant's option.⁴⁷ The assessor may require additional proof of
8 the information or answers provided in the affidavit before allowing the exemption.

9 Section 220.5 requires aircraft that are to qualify for the historical aircraft exemption to be
10 *available for display to the public* and not be used for *general transportation* or *commercial*
11 *purposes*. These terms are discussed below.

12 **AVAILABLE FOR DISPLAY TO THE PUBLIC**

13 *Available for display to the public* means actual display or documented willingness to display at
14 either:

- 15 1. An organized air show,
- 16 2. A museum, or
- 17 3. A special designated area set aside for historical aircraft open to the public.

18 To qualify as available for display to the public under any situation (other than 1, 2, or 3 above),
19 an individual must document that the aircraft is displayed in such a manner that the general
20 public is aware that public viewing is clearly invited, and that there are reasonable
21 accommodations to allow public viewing of the aircraft. To qualify as available for display also
22 means that there must be a reasonable effort to make the general public aware of the display, and
23 there must be reasonable viewing hours.

24 Making an aircraft available by appointment only is not a clear invitation for viewing issued to
25 the general public. Also, an owner's homesite will lack reasonable accommodations for public
26 viewing in most instances. The aircraft must be displayed in a place where deliberate public
27 viewing can be accommodated during reasonable viewing hours.

28 As used in the statute, *available* means that if an aircraft was formally scheduled for display at a
29 qualifying site and the display was cancelled (e.g., because of rain), the date would count as a
30 day available for display. There is no requirement that the aircraft display site be in California.

31 Available for display to the public at least 12 days shall be defined as displayed or available for
32 display for 12 periods with each period being four or more hours during one 24-hour period as
33 described below:

⁴⁷ Section 220.5, subdivision (c).

- 1 1. If airworthy, at least 6 of the 12 displays are as defined under (A) below.
- 2 2. If not airworthy and/or being restored, any or all of the 12 displays are as defined under
- 3 (A) and (B) below.
- 4 A. *Display* is defined as flown, taxied, or otherwise moved to a location other than the
- 5 normal storage location for display to an organized group of persons, for an
- 6 announced display to the general public, or for permanent display at a museum.
- 7 B. *Display* is defined as displayed in the normal storage location to an organized group
- 8 of persons or as part of an announced display to the general public, or during posted
- 9 day time viewing periods of four or more hours with public accessibility.

10 For anticipated display in the initial qualifying year, the applicant need only certify that the
 11 aircraft will be made available for display at least 12 days in order to qualify for the exemption.
 12 The assessor can request additional information at a later date to verify compliance. If, at a later
 13 date, it is determined that the owner did not meet the exemption qualifications, an escape
 14 assessment should be issued.⁴⁸

15 **GENERAL TRANSPORTATION**

16 *General transportation* means conveyance of or travel from one place to another. Use of an
 17 aircraft for general transportation means flight of the aircraft from one place to another, for the
 18 primary purpose of transporting passengers or goods from one location to another.

19 To constitute general transportation there must be flight from one place to another, not flights
 20 that originate and end in the same place with no intervening stop. Recreational flying,
 21 maintenance-related flying, and flights necessary to maintain the owner's pilot's certificate would
 22 not constitute general transportation unless the flights are primarily for the purpose of
 23 transporting goods or persons to another location. Flights to and from historical aircraft shows or
 24 displays do not constitute general transportation.

25 The exemption for aircraft of historical significance does not apply if an aircraft is used for
 26 general transportation.

27 **COMMERCIAL USE**

28 Conveyance of passengers or goods for any business reason or use of the aircraft for any
 29 revenue-producing activity would constitute a *commercial purpose*.

30 If an aircraft is depreciated as business property, or expenses are written off as business
 31 expenses, then this is factual documentation that the aircraft is used for commercial purposes.

32 The exemption for aircraft of historical significance does not apply if an aircraft is used for
 33 commercial use.

⁴⁸ Section 531.1.

1 ADMINISTRATION OF THE EXEMPTION FOR AIRCRAFT OF HISTORICAL SIGNIFICANCE

2 The following are some of the procedural requirements that the assessor should be aware of for
3 the administration of the exemption for aircraft of historical aircraft.

- 4 • If an owner removes an aircraft from the taxing jurisdiction of a county and then returns
5 the aircraft at a subsequent lien date, an additional fee is not required for any subsequent
6 application filed for the same aircraft.
- 7 • A separate application and fee is required for each aircraft. If an individual owns multiple
8 potentially qualifying aircraft, then separate applications are required for each of the
9 aircraft, with a fee charged for each application.
- 10 • If an aircraft is moved to another county, and an exemption application is filed in the
11 second county, it would be considered the initial application in that county and the \$35 fee
12 is required.
- 13 • After the initial application tax year, the applicant shall sign a "continuing qualification
14 affidavit" each year. The assessor should ensure compliance with the exemption
15 requirements by random audit.

16 The *Claim for Exemption from Property Taxes of Aircraft of Historical Significance* form
17 (BOE-260-B) is used to claim the exemption. It is important to remember that the form must be
18 signed by the claimant in the presence of the assessor, or the assessor's designee, or a notary
19 public.⁴⁹

20 AIRCRAFT BEING REPAIRED

21 Section 220 provides that aircraft may be exempt from taxation if the aircraft is in California for
22 repairs. Section 220 states:

23 Any aircraft which is in California on the lien date solely for the purpose of being
24 repaired, overhauled, modified, or serviced is exempt from property taxation.
25 This exemption does not apply to aircraft normally based in California, or
26 operated intrastate or interstate in and into California.

27 Aircraft that qualify for the exemption include certificated aircraft that have been taken out of
28 revenue service by an air carrier for the purpose of being repaired or serviced. Aircraft in
29 California solely for the purposes described in section 220 include any incidental and attendant
30 storage.⁵⁰

⁴⁹ For further discussion on the historical aircraft exemption, see Letter To Assessors 2002/090, December 20, 2002.

⁵⁰ Rule 138.

DISPLAY IN AN AEROSPACE MUSEUM

Except as provided in section 217.1, subdivision (d),⁵¹ the following articles of personal property that have been made available for display in a publicly owned aerospace museum, or an aerospace museum that is regularly open to the public and that is operated by a nonprofit organization that has qualified for exemption pursuant to section 23701, subdivision (d), shall be exempt from taxation.

1. Aircraft that have been restored or maintained, whether currently certified or not for flight purposes.
2. Aircraft donated in perpetuity to the aerospace museum.

When making a claim for an exemption pursuant to this section, a person claiming the exemption shall give all information required and answer all questions in an affidavit, and shall subscribe and swear to the affidavit before, at the election of the claimant, either the assessor or a notary public.⁵² The assessor may require other proof of the facts stated before allowing the exemption. The affidavit must be accompanied by a certificate from the director or other officer of the aerospace museum attesting that the aircraft was available for public display in the aerospace museum for the period specified.

ADMINISTRATION OF THE AEROSPACE MUSEUM EXEMPTION

Section 217.1, subdivision (e) provides:

The exemption provided by this section will not apply unless the property was made available for public display in the aerospace museum for a period of 90 days during the 12-month period immediately preceding the lien date for the year for which the exemption is claimed.

If the property was first made available for public display less than 90 days prior to the lien date, the exemption may be granted if the person claiming the exemption certifies in writing that the property will be made available for public display for at least 90 days during the 12-month period commencing with the first day the property was made available for public display.

Regularly open to the public means that the aerospace museum was open to the public not less than 20 hours per week for not less than 35 weeks of the 12-month period immediately preceding the lien date for the year for which the exemption is claimed.⁵³

If the aerospace museum has been open for less than the required amount of time, the exemption may be granted if the director or other officer of the aerospace museum certifies in writing that

⁵¹ The exemption does not apply to any aircraft loaned by any person who holds aircraft primarily for purposes of sale.

⁵² Section 217.1, subdivision (b).

⁵³ Section 217.1, subdivision (f).

1 the aerospace museum will be open for the required amount of time beginning with the date the
2 aerospace museum was first opened.

3 If a person certifies in writing that the property will be made available and the aerospace
4 museum is open for the periods specified in section 217.1, and the property is subsequently not
5 made available or the aerospace museum is not opened, the exemption must be cancelled and an
6 escape assessment may be made as provided in section 531.1.

7 The *Certificate and Affidavit for Exemption of Certain Aircraft* form (BOE-260-A) is used for an
8 aircraft owner to claim the exemption from property taxation for aircraft on display in a publicly
9 owned aerospace museum, or an aerospace museum that is regularly open to the public and
10 operated by a qualifying nonprofit organization. This form must be signed by the claimant in the
11 presence of the assessor, or the assessor's designee, or a notary public.

12 **AIRCRAFT OWNED BY UNITED STATES OR FOREIGN GOVERNMENT**

13 Section 5331 provides that aircraft owned by the United States, by any foreign government, by a
14 consul or other official representative of any foreign government, or other official representative
15 of any foreign government are exempt from property taxation.

16 **AIRCRAFT OWNED BY CALIFORNIA OR POLITICAL SUBDIVISION**

17 Section 5332 provides that aircraft owned by the State of California or by any county, city and
18 county, city, district, political subdivision, public corporation, or authority of this state are
19 exempt from property taxation.

APPENDIX A: SAMPLE AIRCRAFT STATEMENT



COUNTY OF SKYLER
 OFFICE OF THE ASSESSOR
 2000 WINGED DRIVE
 FLYING CITY, CA 55555

AIRCRAFT STATEMENT

F.A.A. No.: _____

RETURN FORM TO:
 Verne "Buzz" Lightyear, County Assessor
 Aircraft Section
 2000 Winged Drive
 Flying City, CA 55555
 (916) 555-5555

Dear Aircraft Owner:

Pursuant to California Revenue and Taxation Code section 5362, the assessor of the county in which an aircraft is **habitually** situated shall assess the aircraft at its market value. The assessor's records indicate that you are the owner of the aircraft identified above. In accordance with section 5365, you are required to complete Part I of this form. Pursuant to section 5367, failure to respond by [30 days] will require the assessor to add a 10 percent penalty to the market value of your aircraft.

PART I – REQUIRED AIRCRAFT INFORMATION

Make	
Model	
Year of Manufacture	

If you are the individual owner of an aircraft that is 35 years or older, display it for public use at least 12 days a year, and do not use the aircraft for commercial or general transportation purposes, you may be eligible for the historical aircraft exemption. For information regarding this exemption, please contact our office at (916) 555-5555.

In order to assist the assessor in arriving at the fair market value of your aircraft, pursuant to Revenue and Taxation Code sections 441(d) and 470, please complete Parts II through V.

PART II – ADDITIONAL AIRCRAFT INFORMATION

DATE PURCHASED	
SERIAL NUMBER	
TOTAL COST	
TOTAL AIRFRAME HOURS	

	ENGINE #1	ENGINE #2
MAKE		
MODEL		
YEAR OF MANUFACTURE		
ESTIMATED TIME BETWEEN MAJOR OVERHAULS		
TIME SINCE LAST MAJOR OVERHAUL		
RE-ENGINE (DATE)		
TOTAL ENGINE HOURS		

APPENDIX B: REVENUE AND TAXATION CODE

Part 10. Aircraft Assessment and Taxation

Chapter 1. General Provisions and Definitions

5301. Legislative intent; uniform tax on aircraft. It is the intent of the Legislature in enacting this part to provide for a uniform countywide system of ad valorem taxation of all aircraft in this State, regardless of where the aircraft is based in the State.

5302. Construction. Except where the context otherwise requires, the definitions given in this chapter govern the construction of this part.

5303. "Aircraft." (a) "Aircraft" means any contrivance used or designed for the navigation of or for flight in the air which has been flown at least once, other than a parachute or similar emergency safety device.

(b) "Aircraft" does not include any of the following:

(1) Rockets or missiles.

(2) Aircraft operated exclusively by an air carrier or foreign air carrier as defined in subdivisions (3) and (19) of Section 101 of Title 1 of the "Federal Aviation Act of 1958" (P.L. 85-726; 72 Stat. 731) engaged in air transportation as defined in subdivision (10) of the same section while there is in force a certificate or permit issued by the Civil Aeronautics Board of the United States, or its successor, or a certificate or permit issued by the California Public Utilities Commission, or its successor, authorizing such air carrier to engage in such transportation.

(3) Air taxis as defined in subdivision (a) of Section 1154.

5304. "In this State." "In this State" means within the exterior limits of the State of California, and includes all territory within these limits owned by or ceded to the United States of America.

Chapter 2. Exemptions

5331. Aircraft owned by United States or foreign government. Aircraft owned by the United States, by any foreign government, or by a consul or other official representative of any foreign government, are exempt from personal property taxation.

5332. Aircraft owned by this State or political subdivision. Aircraft owned by this State or by any county, city and county, city, district, political subdivision, public corporation or authority of this State are exempt from personal property taxation.

Chapter 3. Assessment

5362. Assessed where habitually situated. The assessor of the county in which the aircraft is habitually situated shall assess the aircraft at its market value.

5363. Market value. In assessing aircraft, the county assessor shall determine the market value of the aircraft in accordance with standards and guides to the market value of aircraft prescribed by the board. In determining the market value of aircraft the assessor shall not take into account the existence of any custom or common method, if any, in arriving at the market value of any class or classes of aircraft.

5364. Board to establish assessment standards. The board shall establish standards and fix guides or, after a public hearing, shall review and approve commercially available guides, to be used by the county assessor in the assessment of aircraft at market value.

5365. Statement. Upon request of the assessor of the county in which an aircraft is habitually based, the owner shall file with him a statement setting forth the make, model and year of manufacture of the aircraft.

5366. Airport operators required to file statement. Owners, as well as operators, of private and public airports shall, within 15 days following the lien date of each year, provide the assessor of the county in which the airport is situated with a statement containing a list of names and addresses of the owners, and the make, model, and aircraft registration number, of all aircraft which were using the airport as a base. The assessors of each county shall, not later than July 1, 1970, and not later than the first day of July of each year thereafter, provide the California Department of Transportation, Division of Aeronautics with a statement containing a list of names, addresses of owners, make, model, aircraft registration number and assessed value of all aircraft which were using airports in the county as a base.

5367. Penalty; failure to file statement. If any person who is requested to file a statement pursuant to Section 5365 fails to file such statement by the time specified by the assessor, a penalty of 10 percent of the market value of the unreported aircraft shall be added to the value of the aircraft of such person which is placed on the current roll.

If the assessee establishes to the satisfaction of the county board of equalization or the assessment appeals board that the failure to file the statement was due to reasonable cause and not due to willful neglect, it may order the penalty abated; provided, that the assessee has filed with the county board written application for abatement of the penalty within the time prescribed by law for the filing of applications for assessment reductions.

If the penalty is abated, it shall be canceled or refunded in the same manner as an amount of tax erroneously charged or collected.

Chapter 4. Levy

5391. Rate of tax. For the 1980-81 fiscal year and each fiscal year thereafter, aircraft subject to this part shall be taxed at the same rate and in the same manner as all other personal property. Aircraft which are considered business inventories, within the meaning of Section 129 of the Revenue and Taxation Code, shall be included in the inventory exemption.

5392. Collection. The tax on aircraft subject to this part shall be collected in the same manner as all other personal property.

Chapter 6. Distribution

5451. Method of distribution. The revenue derived from any tax levied pursuant to this part shall be distributed as prescribed in this chapter.

5452. One-third each to city, school districts and county. If the aircraft are habitually based in a city and any school districts, the proceeds shall be distributed one-third to the city, one-third to the school districts, and one-third to the county.

5453. One-half each to school districts and county. If the aircraft are habitually based outside of a city, but in any school districts, the proceeds shall be distributed one-half to the school districts and one-half to the county.

5454. Equal distribution between elementary and high school districts. If the aircraft are habitually based in an elementary school district and a high school district, the proceeds allotted to school districts shall be divided equally between the elementary school district and the high school district.

5455. Legislative purpose; excludes other educational districts. It is the purpose of this chapter to divide the proceeds allotted to school districts equally between districts supporting elementary schools and districts supporting high schools, excluding all other educational districts.

5456. Details of distribution method supplied by county auditor. The details of the method of distribution shall be supplied by the county auditor and shall fairly carry out the purpose of this chapter.

Part 2. Assessment

Chapter 1. Taxation Base

217.1. Personalty available for display in Aerospace museum.

(a) Except as provided in subdivision (d), the following articles of personal property which have been made available for display in a publicly owned aerospace museum, or an aerospace museum which is regularly open to the public and which is operated by a nonprofit organization which has qualified for exemption pursuant to Section 23701d, shall be exempt from taxation:

- (1) Aircraft which have been restored or maintained, whether currently certified or not for flight purposes.
- (2) Aircraft donated in perpetuity to the aerospace museum.

(b) When making a claim for an exemption pursuant to this section, a person claiming the exemption shall give all information required and answer all questions in an affidavit, and shall subscribe and swear to the affidavit before, at the election of the claimant, either the assessor or a notary public. The assessor may require other proof of the facts stated before allowing the exemption. The affidavit shall be accompanied by a certificate of the director or other officer of the aerospace museum in which the property for which an exemption is claimed under this section was made available for display that the property was available for public display in the aerospace museum for the period specified in subdivision (e).

(c) For the 1984-85 assessment year and each assessment year thereafter, the provisions of Sections 255 and 260 shall be applicable to the exemption provided by this section.

(d) The exemption provided by subdivision (a) shall not apply to any aircraft loaned by any person who holds aircraft primarily for purposes of sale.

(e) The exemption provided by this section shall not apply unless the property was made available for public display in the aerospace museum for a period of 90 days during the 12-month period immediately preceding the lien date for the year for which the exemption is claimed.

If the property was first made available for public display less than 90 days prior to the lien date, the exemption may be granted if the person claiming the exemption certifies in writing that the property will be made available for public display for at least 90 days during the 12-month period commencing with the first day the property was made available for public display.

(f) For purposes of this section, "regularly open to the public" means that the aerospace museum was open to the public not less than 20 hours per week for not less than 35 weeks of the 12-month period immediately preceding the lien date for the year for which the exemption is claimed.

If the aerospace museum has been open for less than 35 weeks during the 12-month period immediately preceding the lien date or for less than 20 hours per week during that period, the exemption may be granted if the director or other officer of the aerospace museum certifies in writing that the aerospace museum will be open for not less than 20 hours per week for not less than 35 weeks during the 12-month period beginning with the date the aerospace museum was first opened.

(g) If a person certifies in writing that the property will be made available and the aerospace museum open for the periods specified in subdivisions (e) and (f), and the property is not so made available or the aerospace museum is not so opened, the exemption shall be canceled, and an escape assessment may be made as provided in Section 531.1.

(h) The exemption provided by this section shall be applicable for the 1979-80 fiscal year and each fiscal year thereafter.

220. Aircraft being repaired. Any aircraft which is in California on the lien date solely for the purpose of being repaired, overhauled, modified, or serviced is exempt from personal property taxation. This exemption does not apply to aircraft normally based in California, or operated intrastate or interstate in and into California.

220.5. Aircraft of historical significance. (a) Aircraft of historical significance shall be exempt from taxation.

(b) The exemption provided in subdivision (a) shall only apply if all of the following conditions are satisfied:

(1) The assessee is an individual owner who does not hold the aircraft primarily for purposes of sale.

(2) The assessee does not use the aircraft for commercial purposes or general transportation.

(3) The aircraft is available for display to the public at least 12 days during the 12-month period immediately preceding the lien date for the year for which the exemption is claimed. If the aircraft was first made available for public display less than 12 days prior to the lien date, the exemption may be granted if the claimant certifies in writing that the aircraft will be made available for public display at least 12 days during the 12-month period commencing with the first day the property was made available for public display.

(c) When claiming an exemption pursuant to this section, the claimant shall provide all information required and answer all questions contained in an affidavit furnished by the assessor. The claimant shall sign and swear to the accuracy of the contents of the affidavit before either a notary public or the assessor or his or her designee, at the claimant's option. The assessor may require additional proof of the information or answers provided in the affidavit before allowing the exemption.

(d) For purposes of this section, "aircraft of historical significance" means any aircraft which is an original, restored, or replica of a heavier than air powered aircraft which is 35 years or older or any aircraft of a type or model of which there are fewer than five in number known to exist worldwide.

(e) A fee of thirty-five dollars (\$35) shall be charged and collected by the assessor upon the initial application for an exemption pursuant to this section.

224. Personal effects and household furnishings. The personal effects, household furnishings, and pets of any person shall be exempt from taxation.

The phrase "personal effects, household furnishings, and pets" does not include boats, aircraft, vehicles, or personalty held or used in connection with a trade, profession or business or pets so held or used.

For purposes of this section, "pets" mean and include any animals held for noncommercial purposes and not as an investment.

APPENDIX C: PROPERTY TAX RULES

Title 18, Public Revenues California Code of Regulations

Rule 133. BUSINESS INVENTORY EXEMPTION.

Reference: Sections 129 and 219, Revenue and Taxation Code.

(a) SCOPE OF EXEMPTION.

(1) "Business inventories" that are eligible for exemption from taxation under Section 129 of the Revenue and Taxation Code include all tangible personal property, whether raw materials, work in process or finished goods, which will become a part of or are themselves items of personalty held for sale or lease in the ordinary course of business.

(A) The phrase "ordinary course of business" does not constitute a limitation on the type of property which may be held for sale or lease, but it does require that the property be intended for sale or lease in accordance with the regular and usual practice and method of the business of the vendor or lessor.

(B) The phrase "goods intended for sale or lease" means property acquired, manufactured, produced, processed, raised or grown which is already the subject of a contract of sale or which is held and openly offered for sale or lease or will be so held and offered for sale or lease at the time it becomes a marketable product. Property which is ready for sale or lease must be displayed, advertised or otherwise brought to the attention of the potential purchasers or lessees by means normally employed by vendors or lessors of the product.

(2) "Business inventories" includes:

A) Containers or container material such as kegs, bottles, cases, twine and wrapping paper, whether returnable or not, if title thereto will pass to the purchaser or lessee of the product to be sold or leased therein.

(B) New and used oak barrels used in the manufacturing process that physically incorporate the flavor- and aroma-enhancing chemical compounds of the oak into wine or brandy to be sold, when used for this purpose. However, an oak barrel is no longer business inventory once it loses the ability to impart the chemical compounds that enhance the flavor and aroma of the wine or brandy. An "oak barrel" used in the manufacturing process is defined as having a capacity of 212 gallons or less. Oak barrels not used in the manufacturing process but held for sale in the ordinary course of business are also considered business inventory.

(C) Materials such as lumber, cement, nails, steel beams, columns, girders, etc., held by a licensed contractor for incorporation into real property, providing the real property will not be retained for the licensed contractor's use.

(D) Crops and animals held primarily for sale or lease and animals used in the production of food or fiber and feed for animals in either category.

(b) EXCLUSIONS. Property eligible for the "business inventories" exemption does not include:

(1) Property of any description in the hands of a vendee, lessee or other recipient on the lien date which has been purchased, leased, rented, or borrowed primarily for use by the vendee, lessee or other recipient of the property rather than for sale or lease or for physical incorporation into a product which is to be sold or leased. Examples of property excluded from business inventories are office supplies, furniture, machines and equipment and manufacturing machinery, equipment and supplies such as dies, patterns, jigs, tooling or chemicals used to produce a chemical or physical reaction, and contractors' supplies, tools, concrete forms, and other items that will not be incorporated into and become a part of the property. Also ineligible are materials that a contractor is holding to incorporate into real property that will be retained for his own use.

(2) Property being used by its owner for any purpose not directly associated with the prospective sale or lease of that property.

(3) Property actually leased or rented on the lien date.

(4) Property which has been used by the holder prior to the lien date, even though held for lease on the lien date.

(5) Property intended to be used by the lessor after being leased or during intervals between leases even though held for lease on the lien date.

(6) Property in the hands of a lessor who, with intent to enjoy the benefits of the inventory exemption, had leased the property for a period that expired shortly before the lien date but who renewed, extended or renegotiated the lease shortly thereafter.

(c) **SERVICE ENTERPRISES.** Property held by a person in connection with a profession which is primarily a service activity such as medicine, law, architecture or accountancy is not "business inventories" held for sale or lease even though such property may be transferred to a patient or client incidental to the rendition of the professional service. Property held by enterprises rendering services of a nonprofessional type such as dry cleaners, beauty shop operators and swimming pool service companies is to be regarded as "business inventories" held for sale if such property is delivered as an item regularly included in the service.

(d) **REPAIRERS AND RECONDITIONERS.** Persons engaged in repairing or reconditioning tangible personal property with the intent of transferring parts and materials shall be regarded as holding said parts and materials as "business inventories."

(e) **AGRICULTURAL ENTERPRISES.** Animals, crops and feed held primarily for sale or lease in the ordinary course of business are included in the term "business inventories," as are animals used in the production of food or fiber and feed for such animals.

(1) "Animals used in the production of food and fiber" includes all animals customarily employed in the raising of crops or for the feeding, breeding and management of livestock, or for dairying, or any other confined animals whose products are normally used as food for human consumption or for the production of fiber useful to man. Excluded are animals held by an owner or lessee principally for sport, recreation or pleasure such as show animals, horses held for racing or horses and other animals kept as pets.

(2) The term "crops" means all products grown, harvested, and held primarily for sale, including seeds held for sale or seeds to be used in the production of a crop which is to be held primarily for sale. It does not include growing crops exempted pursuant to Article XIII, section 3(h), of the California Constitution or fruit trees, nut trees, and grapevines exempted by section 223 of the Revenue and Taxation Code.

(3) The term "food" means property normally considered as food for human consumption.

(4) Feed for animals held primarily for sale or lease or for animals used in the production of food or fiber constitutes "business inventories" subject to exemption. It includes every type of natural-grown or commercial product fed to animals except medicinal commodities intended to prevent or cure disease unless the medicinal commodities are purchased as a component part of feed for such animals.

History: Adopted November 20, 1968, effective December 21, 1968.

Amended January 7, 1970, effective February 8, 1970.

Amended January 6, 1971, effective February 18, 1971.

Amended February 5, 1975, effective March 20, 1975.

Amended August 20, 1980, effective November 14, 1980.

Amended October 10, 1984, effective February 21, 1985.

Amended January 5, 2000, effective July 26, 2000.

Amended and effective April 6, 2001.

Rule 134. HOUSEHOLD FURNISHINGS, PERSONAL EFFECTS, AND PETS EXEMPTION.

Reference: Section 224, Revenue and Taxation Code.

Household furnishings, personal effects, and pets, as defined in section 224 of the Revenue and Taxation Code, owned by any individual but not held or used in connection with a trade, profession, or business or for the production of income are exempt from ad valorem taxation.

Household furnishings are personal property and include such items as furniture, appliances, rugs, cooking utensils, and art objects. Not included within the definition of household furnishings are items classified as improvements, such as wall-to-wall carpeting, built-in ovens, ranges, and dishwashers.

Personal effects is a category of personal property which includes such items as money kept for household use, clothing, jewelry, tools, hobby equipment and collections, and other recreational equipment. By statute, it does not include boats, aircraft and vehicles.

The term "pets" includes any animals (e.g., fish, birds, insects, cats, dogs, horses) held for noncommercial purposes and not as an investment. A show animal that is awarded ribbons or cups would not be considered as held in connection with a trade, profession, or business. However, when the animal's proficiency gains monetary or other awards of substantial value, or when the animal is used in the production of offspring that are sold or exchanged for items of substantial value, it is no longer considered a pet entitled to the exemption.

Storage in a warehouse or other place of safekeeping in and of itself does not alter the status of such property. No claim for exemption need be filed by an eligible owner, and no entries need be shown on the assessment roll.

History: Adopted January 8, 1969, effective February 12, 1969.
Amended August 6, 1969, effective September 11, 1969.
Amended December 12, 1969, effective January 11, 1970.
Amended February 17, 1972, effective April 2, 1972.

Rule 138. EXEMPTION FOR AIRCRAFT BEING REPAIRED, OVERHAULED, MODIFIED OR SERVICED.

Reference: Sections 220, 1150, 1151, 1152 and 1154, Revenue and Taxation Code.

(a) **SCOPE OF EXEMPTION.** Any aircraft, certificated or noncertificated, which is in California on the lien date solely for the purpose of being repaired, overhauled, modified, or serviced is exempt from personal property taxation. Aircraft operated intrastate in or interstate into California and aircraft normally based in California do not qualify for exemption.

(b) **QUALIFYING CERTIFICATED AIRCRAFT.** Aircraft that qualify for exemption include certificated aircraft that have been taken out of revenue service by an air carrier:

- (1) for the purpose of being repaired, overhauled, modified, or serviced; and,
- (2) with an executed contract or a specific written plan for the purposes described in subsection (b)(1).

Aircraft in California solely for the purposes described in subsection (b)(1) include any incidental and attendant storage.

(c) **INTERSTATE OPERATION.** Certificated aircraft that have been taken out of revenue service under the provisions of subsection (b) above as of the lien date are not aircraft operated interstate into California for purposes of this rule.

(d) **THE VALUATION OF CERTIFICATED AIRCRAFT.** Certificated aircraft, located in or outside of the state, that have been taken out of revenue service under the provisions of subsection (b) above, shall not be valued pursuant to

section 401.15 of the Revenue and Taxation Code nor included in the allocation formula of section 1152 of the Revenue and Taxation Code and rule 202, until the lien date next following the date that such aircraft are returned to revenue service.

(e) **REPORTING BY AIR CARRIERS.** When filing business property statements, air carriers shall indicate on the property statement or an attachment to the property statement those certificated aircraft which qualify for exemption pursuant to this section. Air carriers shall maintain records adequate to verify that these aircraft qualify for exemption.

History: Adopted November 28, 201 as emergency regulation, effective December 14, 2001.
Adopted March 27, 2002 as permanent regulation, effective May 20, 2002.

Rule 205. MOVABLE PROPERTY.

Reference: Article XIII, Section 14, California Constitution.

(a) **GENERAL.** Movable property is all property which is intended to be, and is, moved from time to time from one location to another. Such property may be in-transit, consigned, or leased, and under such circumstances its situs is to be determined by reference to Section 203 or 204 of this chapter.

Movable property has situs where located on the lien date if it has been in the county for more than 6 of the 12 months immediately preceding the lien date and if it is to remain in or be returned to the county for any substantial period during the 12 months immediately succeeding the lien date. Property which has been in the county for less than 6 of the 12 months immediately preceding the lien date, but which is committed to use in the county for an indeterminate period or for more than six months, has situs there whether the use extends through or commences with the lien date.

Property which does not have situs where located on the lien date pursuant to the previous paragraph has situs at the location where it is normally returned between uses or, if there is no such location, at the principal place of business of the owner.

(b) **GENERAL AIRCRAFT.** Aircraft other than those subject to Revenue and Taxation Code sections 1150 and 1155 have situs for taxation purposes at the airport in which they are habitually situated when not in flight. An aircraft that spends a substantial amount of ground time at each of two or more airports has its tax situs at the airport where it spends the greatest amount of ground time.

(c) This section does not apply to boats or racehorses.

History: Adopted February 7, 1968, effective March 14, 1968.
Amended February 24, 1969, effective March 30, 1969.
Amended July 31, 1980, effective November 19, 1980.
Amended July 27, 1982, effective February 17, 1983.