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September 26, 2003

TO INTERESTED PARTIES:

UPDATE OF ASSESSORS' HANDBOOK SECTION 577,
ASSESSMENT OF GENERAL AIRCRAFT

In a July 24, 2003 letter, interested parties were invited to provide comments on the draft revisions of Assessors' Handbook Section 577, *Assessment of General Aircraft*. Staff's proposed revisions represented a complete rework of the prior version of the handbook.

After reviewing comments received from interested parties, staff has prepared a matrix which will form the primary discussion topics for a meeting with interested parties. The matrix is posted to the Board's Web site at www.boe.ca.gov/proptaxes/ah577sch.htm. Additionally, you may obtain a hard copy of the matrix by contacting Ms. Sherrie Kinkle at (916) 322-2921 or sherrie.kinkle@boe.ca.gov.

The interested parties meeting will be held on October 10, 2003, 9:30 a.m., at the Board's headquarters in Sacramento, 450 N Street, Room 122. The revision of the handbook is scheduled to be presented to the Property Tax Committee at its November 18, 2003 meeting. Any changes to the schedule will be posted to the Board's Web site.

If you plan to attend the interested parties meeting on October 10, please advise Sherrie Kinkle. Thank you for your continued interest in this project.

Sincerely,

/s/ Dean R. Kinnee

Dean R. Kinnee, Chief
Assessment Policy and Standards Division

DRK:sk

**ALTERNATIVE LANGUAGE
REVISION OF AH 577, ASSESSMENT OF GENERAL AIRCRAFT**

No.	PAGE/LINE REFERENCE		SOURCE	PROPOSED LANGUAGE	SBE STAFF POSITION
1	2	18	CA Assessors' Association— Business Property Subcommittee	Add sentence: ...such air carrier to engage in such transportation. ⁴ <u>For a complete discussion of this topic, see Assessors' Handbook Section 570.</u>	Accepted
2	2	20	CA Assessors' Association— Business Property Subcommittee	Revise sentence: <i>Situs</i> is the place where property is legally <u>habitually</u> situated; the more or less permanent location of the property. <u>A complete discussion of situs is included in Chapter 4.</u>	Not accepted—this is an accurate definition of <i>situs</i> . "Habitually situated" element is for aircraft only and is discussed in the following section. Accepted—addition of reference sentence.
3	2	29	CA Assessors' Association— Business Property Subcommittee	Delete sentence and footnote: Sections 2192 and 722 specify that the annual lien date is January 1. Personal property is assessable only if taxable on this date.⁶ ⁶Manufactured 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.	Not accepted—aircraft are classified as personal property and are assessable on the lien date
4	3	7	CA Assessors' Association— Business Property Subcommittee	Add sentence: Unlike most types of personal property, there is no requirement that aircraft be used for business purposes to be assessable. <u>Code section 224 states "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,..."</u> However, not all aircraft are taxable.	Suggested text refers to assessability, not classification. Text will be added on page 4, at line 17. See Item No. 5

No.	PAGE/LINE REFERENCE		SOURCE	PROPOSED LANGUAGE	SBE STAFF POSITION
5	4	17	SBE Staff	<p>Revise paragraph: Article XIII, section, of the California Constitution provides that all property is taxable unless otherwise exempt by the state constitution or the laws of the United States. The Legislature has the power to exempt personal property from taxation or to allow for differential taxation.¹¹ <u>For example, Section 224 provides:</u></p> <p><u>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.</u></p> <p>Therefore, an <u>An</u> aircraft can be exempt from property taxation by reason of its ownership, use, and/or type. For example, an aircraft dealer's inventory is exempt by type (a discussion of business inventories and other exemptions are <u>is</u> included in Chapter 5).</p>	See Item No. 4
6	4	22	CA Assessors' Association— Business Property Subcommittee	<p>Revise paragraph: The assessor must first determine whether an aircraft is taxable (assessable) or exempt.¹² It is important for the appraiser to be aware of all possible aircraft exemptions in order to determine the assessability of the aircraft being appraised. <u>In determining assessability it is important to understand that an aircraft is not assessable until it has been flown once. Once flown, a plane is assessable whether it has been disassembled and is in parts or is currently airworthy. In some cases the parts of a disassembled aircraft can have more assessable value than an airworthy aircraft.</u></p> <p>SBE REWRITE: The assessor must first determine whether an aircraft is taxable (assessable) or exempt.¹² It is important for the appraiser to be aware of all possible aircraft exemptions in order to determine the assessability of the aircraft being appraised.</p> <p><u>In determining assessability, an aircraft is not assessable until it has been flown once.^{FN} An aircraft that is not presently in flyable condition but that still has an active registration with the FAA would be assessable. The maintenance of an active FAA registration would be evidence of an intent to make the aircraft flyable at some future point in time. If the registration has been cancelled by registering the aircraft as scrapped or dismantled with the FAA, then the parts which were formerly an aircraft would be treated in the same manner as other personal property owned by the assessee.</u></p> <p>^{FN} <u>Section 5303.</u></p>	See Rewrite

No.	PAGE/LINE REFERENCE		SOURCE	PROPOSED LANGUAGE	SBE STAFF POSITION
7	5	9	SBE Staff	<p>Revise paragraph: Owners who sell their aircraft after the lien date and prior to the fiscal year that the tax bill covers are still liable for the taxes imposed.¹⁷ Although the assessment is based on the value of the aircraft on the preceding lien date, the tax bill received is for the ensuing fiscal year. Thus, in the sale of an aircraft, any proration of taxes is left to the parties involved. For an open market transaction,¹⁸ the appraiser should assume that the taxes were considered by the seller in determining the sales price.</p> <p>¹⁸ Section 110.</p>	Accepted—Deleted sentence does not pertain to the subject matter in the section.
8	9	1	CA Assessors' Association— Business Property Subcommittee	<p>Revise heading: COUNTY AIRCRAFT <u>PROPERTY STATEMENT</u></p>	Not accepted—SBE does not prescribe a property statement for aircraft. Not all county aircraft forms are titled "property statement."
9	9	10	CA Assessors' Association— Business Property Subcommittee	<p>Add sentence: Furthermore, if the assessor requires that these forms be completed by aircraft owners annually, they are often very useful in a timely determination of when owners have installed new avionics on an aircraft or when an aircraft has undergone an overhaul. <u>The Aircraft Property Statement should be mailed to the taxpayer as close to the lien date as possible for timely completion.</u></p> <p>SBE REWRITE: ...has undergone an overhaul. <u>The aircraft statement should be mailed to the taxpayer for completion as close to the lien date as possible.</u></p>	See Rewrite
10	9	14	CA Assessors' Association— Business Property Subcommittee	<p>Revise paragraph: While the <u>The</u> statute does not specify the length of time the assessor should allow to file the aircraft <u>property</u> statement before imposition of the penalty, a reasonable amount of time would be 30 days. <u>It is recommended that the deadline for filing without a penalty be 30 days after the mailing date or April 1 (as on other property statements) whichever is later.</u></p> <p>SBE REWRITE: While the statute does not specify the length of time the assessor should allow to file the aircraft statement before imposition of the penalty, a reasonable amount of time would be 30 days. <u>it is recommended that the deadline for filing without a penalty be 30 days after the mailing date of the aircraft statement or April 1, whichever is later.</u></p>	County aircraft statements are not SBE prescribed and reference to prescribed property statement provisions is misleading. See Rewrite

No.	PAGE/LINE REFERENCE		SOURCE	PROPOSED LANGUAGE	SBE STAFF POSITION
11	9	22	CA Assessors' Association— Business Property Subcommittee	<p>Revise sentence: A sample of an aircraft <u>property</u> statement is included in Appendix A <u>and Appendix G.</u>²²</p> <p>²² The Board does not prescribe a property statement for general aircraft.</p>	Not accepted— SBE does not prescribe a property statement for aircraft. Not all county aircraft forms are titled "property statement."
12	13	30	Nevada County Assessor (Flippin)	<p>Revise sentence: Consequently, the a 10 percent reduction of listed retail values shown in the value guides should be reduced by 10 percent to value an aircraft in average condition on the lien date. <u>should be considered to account for dealer incentives and reconditioning.</u></p>	Not accepted— preceding text does not justify the 10 percent reduction to only dealer incentives and reconditioning
13	15	Table	CA Assessors' Association— Business Property Subcommittee	SEE ATTACHMENT 1	See Rewrite— Attachment 2
14	16	21	CA Assessors' Association— Business Property Subcommittee	<p>Add sentence: The Spring Edition of the <i>Aircraft Bluebook</i> and Volume I of the <i>Vref Aircraft Value Reference</i> are recommended. <u>There is an electronic version of the Aircraft Bluebook-Price Digest (aircraftbluebook.com).</u></p> <p>SBE REWRITE: The Spring <u>Winter</u> Edition of the <i>Aircraft Bluebook</i> and Volume I of the <i>Vref Aircraft Value Reference</i> are recommended. <u>There is an electronic version of the Aircraft Bluebook-Price Digest available by subscription at aircraftbluebook.com.</u></p>	See Rewrite Text changed from "Spring" Edition of <i>Bluebook</i> to "Winter" Edition to conform to Board adopted policy in 1/97, and discussion with Assoc. Editor of <i>Bluebook</i> regarding market data used in the two editions.
15	16	22	Nevada County Assessor (Flippin)	<p>Revise sentence: As discussed earlier, the a 10 percent reduction of values listed in the guides should be reduced by 10 percent to provide reasonable estimates of market value for aircraft in average condition on the lien date. <u>is advised to allow for dealer incentives and reconditioning.</u></p>	Not accepted—see Item No. 12

No.	PAGE/LINE REFERENCE		SOURCE	PROPOSED LANGUAGE	SBE STAFF POSITION
16	18	6	CA Assessors' Association— Business Property Subcommittee	<p>Revise sentence: Since aircraft <u>Aircraft</u> are classified as personal property and mobile, they have no fixed location.</p> <p>SBE REWRITE: Since aircraft <u>Aircraft</u> are classified as personal property, and <u>are</u> mobile, they and frequently have no <u>single</u> fixed location.</p>	See Rewrite
17	19	17	SBE Staff	<p>Revise paragraph: For aircraft that are domiciled in California, have an established tax situs in California and have <u>established</u> tax situs in another state or states, the county may assess portions of value reflecting the periods that the aircraft are not present in the other state where the aircraft has established situs. When an aircraft is domiciled in another state and has situs in that state as well as in California, value should be apportioned for only the time spent in California.⁴⁰ Finally, if an aircraft has domicile and tax situs in California but operates for some part of the year in a foreign country, then the value is apportioned for only the time spent in California.⁴¹ <u>For property with multiple tax situs in and outside of California, apportionment is required, regardless of whether each state or country that acquires taxing jurisdiction actually imposes a tax.</u></p>	SBE Rewrite
18	19	23	CA Assessors' Association— Business Property Subcommittee	<p>Add paragraph: <u>To assist the appraiser in determining situs for allocation purposes the appraiser may request certain documents from the taxpayer. Documents that may be useful include, but are not limited to, hangar or tie-down receipts, flight or maintenance logs, and paid tax bills from another county, state, or country.</u></p>	Accepted
19	21	20	CA Assessors' Association— Business Property Subcommittee	<p>Revise sentence: Virtually all aircraft held as dealers' inventory <u>in California</u> are flown <u>directly</u> from the factory to airports located in California.</p>	Accepted
20	21	22	CA Assessors' Association— Business Property Subcommittee	<p>Revise sentence: The guidelines for exemption for 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 <u>in the ordinary course of business on as of</u> the lien date.⁴⁶</p>	Accepted
21	22	17	CA Assessors' Association— Business Property Subcommittee	<p>Add paragraph: <u>In determining whether or not the business claiming the exemption is selling or leasing aircraft as part of their "ordinary course of business", the business should have, but not limited to, the following: FAA dealer's license, State of California sellers permit, local business license, a location on an airport/airfield, listing or consignment agreements, and statement that they have total care, custody, and control of consignment aircraft.</u></p>	Accepted

No.	PAGE/LINE REFERENCE		SOURCE	PROPOSED LANGUAGE	SBE STAFF POSITION
	23	2	SBE Staff	Add paragraph: <u>When applying for an exemption, the claimant must attach to the application a certificate of attendance from the event coordinator of the event at which the aircraft was displayed as required by section 220.5</u>	Text added per Senate Bill 1059— pending approval by the Governor
	23	9	SBE Staff	Add paragraph: <u>If a person claiming the exemption fails to file the affidavit required by 5 p.m. on February 15 of the fiscal year for which the exemption is claimed, but files that affidavit on or before the following August 1, the assessment shall be reduced by an amount equal to 80 percent of the reduction that would have been allowed had the affidavit been timely filed.</u> ^{FN} <u>^{FN} Section 276.5.</u>	Text added per Senate Bill 1059— pending approval by the Governor
22	29	Form	CA Assessors' Association— Business Property Subcommittee	Add line to Part III: <u>Date of Arrival</u>	Accepted
23	38	?	CA Assessors' Association— Business Property Subcommittee	Add Appendix D: <u>LTA 97/03 "General Aircraft Value Guide"</u>	Not accepted— Inclusion of LTA does not add clarification to the text. Information from letter is included in the handbook.
24	38	?	CA Assessors' Association— Business Property Subcommittee	Add Appendix E: <u>LTA 2002/090 "Exemption For Aircraft of Historical Significance"</u>	Not accepted— Inclusion of LTA does not add clarification to the text. Information from letter is included in the handbook.

No.	PAGE/LINE REFERENCE		SOURCE	PROPOSED LANGUAGE	SBE STAFF POSITION
25	38	?	CA Assessors' Association— Business Property Subcommittee	Add Appendix F: <u>Sample of form BOE-577B List of Aircraft</u>	Not accepted—Copy of form does not add clarification to the text. Handbook cannot be revised each time a form is changed.
26	38	?	CA Assessors' Association— Business Property Subcommittee	Add Appendix G: <u>Include sample of BOE 576A Vessel or Aircraft Form</u>	Not accepted—Copy of form does not add clarification to the text. Handbook cannot be revised each time a form is changed.
27	38	?	CA Assessors' Association— Business Property Subcommittee	Add Appendix H: <u>Sample Aircraft Appraisal Worksheet</u> SEE ATTACHMENT 2	Not accepted—See Example 3.1

EXAMPLE 3.1
USE OF THE COMPARATIVE SALES APPROACH

Ben Airworthy purchased a 1970 Cessna ~~T188 Huskey~~ 180H in 1993 for \$52,750. On the 2003 lien date, the aircraft was hangared in a river shed 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* Trade-A-Plane for ~~\$71,000~~ \$115,500.
- An inspection of the aircraft, flight log, maintenance log, and conversations with the assessee indicate ~~average condition, average equipment, and approximately mid-time since engine overhaul.~~ the following:
 1. The aircraft has low airframe hours (3500)
 2. The engine hours are excessive (1200)
 3. Needs Exterior Paint
 4. Needs Complete New Interior
 5. Has average avionics however has added a DME
 6. The aircraft is equipped with Floats.

Research from the Spring Edition 2003/2004 Aircraft Bluebook-Price Digest indicates a standard price of ~~\$60,350~~ \$65,000, an average-equipped price of ~~\$61,710~~ \$69,000, and an average ~~retail price~~ Retail of ~~\$65,000~~ \$80,000.

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 from an acquaintance and not an actual sale, nor was the aircraft exposed for sale in the open market. The aircraft advertised in ~~a magazine also~~ Trade-A-Plane is not a market value because; ~~again,~~ it is only an offer to sell and not an actual sale.

The appraiser in this ~~instance~~ case would use as a starting point the average retail value of ~~\$65,000~~ \$80,000 found in the Spring Edition of the ~~Aircraft Bluebook~~ Aircraft Price Digest, reduce that value by 10%²⁸ percent⁺, and then add the appropriate sales tax for Sacramento County at 7.75%. ~~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~~. The adjustment for airframe, engine, paint, interior, floats and additional avionics would be made as follows:

<u>Avg. Retail</u>	<u>Item Description (deductions/additions are 1/2 of cost per "Aircraft Bluebook")</u>
<u>\$80,000.00</u>	<u>1970 180H (Avg. Retail Marketable)</u>
<u>-\$1,800.00</u>	<u>SBE—10% from Blue Book avg. +7.75% Sales Tax = 2.25% from Avg. retail</u>
<u>+\$145.00</u>	<u>Low Airframe Hours 3500 hrs (2% for late model) M</u>
<u>-\$4,748.00</u>	<u>For high engine time x 1 (1200 log hours)</u>
<u>-\$8,000.00</u>	<u>Needs new Exterior Paint</u>
<u>-\$4,500.00</u>	<u>Needs new Interior. (re-rag)</u>
<u>+\$1,125.00</u>	<u>Bendix/King KDM 700A (DME)</u>
<u>+\$8,190.00</u>	<u>Aqua Float Co. Model 2190 Pontoons.</u>
<u>\$70,412.00</u>	<u>Estimated total value of Aircraft.</u>

The appraiser would estimate the Aircraft value at \$70,400 for the January 1, 2003 lien date.

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

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

Ben Airworthy purchased a 1970 Cessna 180H 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 *Trade-A-Plane* for \$115,500.
- An inspection of the aircraft, flight log, maintenance log, and conversations with the assessee indicate the following:
 - ? Aircraft has low airframe hours (3,500)
 - ? Engine hours are excessive (1,200)
 - ? Needs exterior paint
 - ? Needs complete new interior
 - ? Equipped with floats from factory
 - ? Average avionics with added DME (Distance Measuring Equipment)
- Research from the Winter 2002/2003 Edition of *Aircraft Bluebook-Price Digest* indicates a factory new standard price of \$65,000, an average-equipped price of \$69,000, and an average retail price of \$80,000.
- 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 from an acquaintance, not an actual sale, nor was the aircraft exposed for sale in the open market. The aircraft advertised in *Trade-A-Plane* is not market value because 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 price of \$80,000 found in the Winter Edition of the *Aircraft Bluebook-Price Digest*, reduce that value by 10 percent,² and then add the appropriate sales tax (in this example, 7.75 percent for Sacramento County). The adjustments for airframe, engine time, paint, interior, floats, and additional avionics would be made as follows per guidelines in the *Bluebook*:

<u>Average Retail</u>	<u>Item Description</u>
\$80,000	1970 180H (average retail price in <i>Bluebook</i>)
-8,000	Deduct 10% (SBE adjustment from <i>Bluebook</i> price)
5,580	Add 7.75% (sales tax for Sacramento County)
145	Add for low airframe hours (+2% for late model)
-4,748	Deduct for high engine time
-4,000	*Deduct for needing new exterior paint
-4,500	*Deduct for needing new interior
8,190	Add for floats (Aqua Float Co. Model 3190 Pontoons)
<u>1,125</u>	Add for DME (Bendix/King KDM 700A)
\$73,792	Estimated total value of aircraft

The appraiser would estimate the value of the aircraft at \$73,800 for the January 1, 2003 lien date.

* Deductions and additions are 50 percent of cost per instructions in *Aircraft Bluebook-Price Digest*.

² See discussion earlier in this chapter regarding 10 percent reduction.

Aircraft Appraisal Form

AIRCRAFT: N 65524
OWNER: Joe Aircraft Owner
AIRCRAFT BASE: Red Bluff Airport
AUDIT SOURCE:

		ASSESSMENT YEAR	2003	2004	2005	2006
YEAR	1968	PRICE DIGEST				
MAKE	Cessna	Page Ref:	\$60,000			
MODEL	182L	VREF	229			
	Skylane	Page Ref:				
SS#	182-59076	Other Indicators				
S/P DATE	7/30/86	BASIC VALUE*	\$54,000			
S/P	\$15,000					
ENGINE ADJUSTMENT		MID TIME HR.	750			
NO:	1	ACTUAL HR.	839			
MAKE	Continental	VARIANCE	- (89)			
MODEL	0-470R	FACTOR/HR	\$10.55			
H.P.	230	VALUE ADJ.	(900)			
ADDED EQUIPMENT		YEAR COST				
		VALUE ADJ.	0			
CONDITION ADJUSTMENT						
DAMAGE HISTORY		(1)	(3,500)			
PAINT AND/OR INTERIOR		(2)	(4,000)			
NEEDS REPAIR						
OTHER ADJ.						
		VALUE ADJ.	(7,500)			
FULL VALUE ADJUSTMENT SALES TAX			3,306			
AIRCRAFT FULL VALUATION			48,906			
NON-FILING PENALTY 10%						
EXEMPTION HISTORICAL						
ASSESSED VALUE			\$48,900			

* PURSUANT TO ASSESSOR'S LETTER 97/03 FOR 1997 AND FUTURE BASIC VALUE TO BE PRICE DIGEST VALUATION LESS 10%

(1) Damage History – Ground Looped 1995

(2) Paint or Interior adjustment is add one-half for new or deduct one-half for aircraft in need of.