STATE OF CALIFORNIA

STATE BOARD OF EQUALIZATION
PROPERTY TAXES DEPARTMENT
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TO COUNTY ASSESSORS AND INTERESTED PARTIES:

ASSESSORS' HANDBOOK SECTION 501
BASIC APPRAISAL

Enclosed are replacement pages for the January 2002 Assessors' Handbook Section 501, *Basic Appraisal* (AH 501). The enclosed pages correct a typographical error in footnote 101. The word "not" was inadvertently misplaced, which resulted in the footnote incorrectly stating that personal property owned by federally chartered credit unions is not subject to property tax and that personal property owned by state-chartered credit unions is subject to property tax. Please remove pages 117-118 from AH 501 and replace them with the enclosed pages.

A more detailed discussion of personal property owned by banks and financial corporations is contained in Assessors' Handbook Section 504, *Assessment of Personal Property and Fixtures*. Additionally, the AH 501 featuring the corrected footnote is available on the Board's Web site at www.boe.ca.gov and can be accessed by way of the following links: (1) Property Taxes, (2) Assessors' Handbook. Copies are also available on diskette upon request to the Policy, Planning, and Standards Division at (916) 445-4982.

Sincerely,

/S/ David J. Gau

David J. Gau
Deputy Director
Property Taxes Department

DJG:bt
Enclosure

corporations generally, is "in lieu of all other taxes and licenses, state, county and municipal, upon the said banks and financial corporations except taxes upon their property,…" As such, assessors should independently evaluate and determine, on a case by case basis, whether these entities are shown on the "Confidential List of Banks and Financial Corporations" (in a CAO) and are qualified by the Franchise Tax Board (Corporate Audit Section) as a bank or financial corporation for assessment purposes. The personal property of those qualifying as financial corporations are exempt from property tax. However, when a bank or financial corporation leases property to another party, section 235 provides that, for property tax purposes, the lessee is conclusively presumed to be the owner of the property. Accordingly, such property is taxable to the lessee.

APPRAISAL METHODS FOR PERSONAL PROPERTY

AUDIT-APPRAISAL METHOD

The audit-appraisal method is based largely on data obtained from existing business records. On a yearly basis the assessor obtains, through the property statement, historical cost information (or costs adjusted for trade level, as discussed above) and other relevant data from the property owner. The acquisition (or trade-leveled) costs are used as a starting point for the estimation of market value. All costs necessary to place the equipment into service are to be included. These include the purchase price of the equipment, sales or use tax, freight charges, installation and set-up costs, machinery foundation costs, and trade level adjustments where applicable.[102]

The historical (or trade-leveled) cost is adjusted to an estimate of current reproduction cost new through the use of a price index or to replacement cost new through the use of current prices for comparable equipment. Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors* (AH 581), is published annually and provides a number of equipment index tables for commercial and industrial equipment. Current prices for replacement equipment are sometimes available from commercial publications or from the property owner.

The cost new (reproduction or replacement) is then adjusted for depreciation (depreciation is the loss of value from all causes). This is typically done through the use of percent good tables, which are also contained in the AH 581. The use of tables is intended to estimate the value of property under typical conditions.

It is possible for individual items or groups of items to suffer abnormal depreciation due to excessive wear and tear, extraordinary functional obsolescence, and/or any form of external obsolescence. On the other hand, sometimes equipment suffers less-than-typical depreciation due to better-than-normal maintenance and other factors. Adjustments should be made whenever the

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are 1) not subject to the bank and corporations in-lieu tax, 2) subject to real property tax, and 3) not subject to personal property tax. Federally chartered entities are 1) not subject to the bank and corporation in-lieu tax, 2) subject to real property tax, and 3) subject to personal property tax.

[102] Except personal property leased for a period of six months or less (rule 10(c)) and for certain liquefied petroleum gas tanks as provided by rule 153.

standard depreciation tables do not accurately measure the actual loss of value of the equipment. Using recent sales of comparable equipment, the appraiser may be able to make a direct estimate of total depreciation from all causes.

PHYSICAL APPRAISAL METHOD

The physical appraisal method is used when accounting records are nonexistent or are inadequate for appraisal purposes, or when there are other reasons to believe that an accurate appraisal cannot be made by using the property statement or other available documents. Physical appraisal may be necessary, for example, when a business has changed owners. Since the recorded costs are just an arbitrary allocation of the total purchase price among such classifications as real property, inventory, personal property, and goodwill, the allocated value may have only a minimal relationship to market value.

The physical appraisal method requires viewing, listing, classifying, and describing property. The auditor-appraiser evaluates the condition and quality of the equipment and then estimates the replacement cost new and the depreciation to determine market value. This can be done with the help of cost and value guides for equipment that is frequently bought and sold.

AUDIT PROGRAM

AUDIT OBJECTIVES

The appraisal of most personal property is based on information submitted by the taxpayer on the property statement, as previously noted. In order for these appraisals to be reliable estimates of value, it is vital that the reported information be accurate and complete.

Assessors are required by section 469 to regularly audit the books and records of certain taxpayers. Pertaining to mandatory audits, this section states, in part:

> In any case in which locally assessable trade fixtures and business tangible personal property owned, claimed, possessed, or controlled by a taxpayer engaged in a profession, trade, or business has a full value of four hundred thousand dollars ($400,000) or more, the assessor shall audit the books and records of that profession, trade, or business at least once each four years.

Additionally, the assessor may audit the books and records of businesses below the mandatory audit level.[103]

The purpose of an audit is to determine whether existing assessments (including previous years' assessments within the statute of limitations) are correct or should be changed. A property tax *audit* (per rule 191) is a means of collecting data relevant to the determination of taxability, situs, and value of property. In order to make this determination, the auditor-appraiser collects data relevant to the determination of taxability, situs, classification, and value of property. Generally,

[103] Revenue and Taxation Code sections 441(d) and 470; rule 192(e).