STATE OF CALIFORNIA

STATE BOARD OF EQUALIZATION
PROPERTY TAXES DEPARTMENT
450 N STREET, MIC: 63, SACRAMENTO, CALIFORNIA
(PO BOX 942879, SACRAMENTO, CALIFORNIA 94279-0063)
TELEPHONE (916) 445-1516
FAX (916) 323-8765

JOHAN KLEHS
First District, Hayward

DEAN F. ANDAL
Second District, Stockton

CLAUDE PARRISH
Third District, Torrance

JOHN CHIANG
Fourth District, Los Angeles

KATHLEEN CONNELL
Controller, Sacramento

E. L. SORENSEN, JR.
Executive Director

September 10, 1999

TO COUNTY ASSESSORS AND INTERESTED PARTIES:

No. 99/51

PROPERTY TAX RULES 10, 124, AND NEW RULE CONCERNING LIQUEFIED PETROLEUM GAS TANKS

Rule 10, *Trade Level for Tangible Personal Property*, was scheduled for discussion at the Board's Property Tax Committee meeting in Sacramento on September 1, 1999. However, the item was pulled from the committee's agenda to allow additional time for staff and interested parties to work on the issues. This rule has been rescheduled for discussion by the Property Tax Committee on November 17, 1999.

The major issue affecting this delay concerns wording regarding propane tanks. Staff therefore proposes to (1) draft a new rule regarding propane tanks, (2) delete all references to propane tanks in Rule 10, and (3) review Rule 124 for possible updating. Staff's draft of these three rules are enclosed for your review:

| | |
|---|---|
| Attachment A | Rule 10, *Trade Level for Tangible Personal Property* |
| Attachment B | New Rule (tentatively Rule 153, *Liquefied Petroleum Gas Tanks*) |
| Attachment C | Rule 124, *Examples* (staff proposes no change to the current rule) |

Interested parties are encouraged to submit comments and proposed revisions to staff's drafts as soon as possible, but no later than September 22, 1999. After reviewing proposals, staff will attempt to resolve identified issues and wording differences, and revise the proposed rules as appropriate. It is not expected that another interested parties meeting will be held. Remaining issues will be presented to the Property Tax Committee in the form of formal issue papers at the meeting in November.

Proposed revisions and comments should be submitted to Gordon Ferguson, Ladeena Ford, or Mara Determan in the Policy, Planning, and Standards Division (FAX: (916) 323-8765 or e-mail gferguso@boe.ca.gov or deteford@boe.ca.gov). Thank you for your continuing interest and support of this project. If you have any questions, please contact Gordon at (916) 322-3815, or Ladeena or Mara at (916) 324-5839.

Sincerely,

/s/ David J. Gau for
Richard C. Johnson
Deputy Director
Property Taxes Department

RCJ:md/lf
Enclosures

**ATTACHMENT A**
**RULE 10: STAFF VERSION**

## Rule 10. TRADE LEVEL FOR TANGIBLE PERSONAL PROPERTY

*References:* Chapter 147, Statutes of 1966, First Extraordinary Session.
Sections 110, 401, Revenue and Taxation Code.

(a) In appraising tangible personal property, the assessor shall give recognition to the trade level at which the property is situated and to the principle that property normally increases in value as it progresses through production and distribution channels. Such property normally attains its maximum value as it reaches the consumer level. Accordingly, tangible personal property shall be valued by procedures that are consistent with the general policies set forth herein. Trade level adjustments shall also be considered when appraising personal property affixed to real property.

(b) Except as provided by the following subdivisions, tangible personal property held by a consumer at any trade level shall be valued at the amount of cash or its equivalent for which the property would transfer to a consumer of like property at the same trade level. This value shall be estimated in accordance with regulations 4, 6, and 8. If a cost approach is employed, the cost shall include the full economic cost of placing the property in service. Full economic cost (i.e., replacement or reproduction cost) includes costs typically incurred in bringing the property to a finished state, including labor and materials, freight or shipping cost, installation costs, sales or use taxes, and additions for market supported entrepreneurial services (with appropriate allowances for trade, quantity, or cash discounts).

(c) Tangible personal property leased, rented, or loaned for a period of six months or less, having a tax situs at the place where the lessor normally keeps the property as provided in regulation 204, shall be valued at the amount of cash or its equivalent for which it would transfer to other lessors or retailers of like property at the same trade level. The value may be estimated by reference to the price at which the lessor could be expected to sell the property at fair market value to other lessors or retailers of like property at the same trade level. If that price is unknown, then the value may be estimated by reference to one or more of the following indicators of value: (1) the lessor's full economic cost of the property with a reasonable allowance for depreciation; (2) the cost indicated in subdivision (e) if the lessor is also the manufacturer; or (3) in accordance with subdivision (b).

(d) Tangible personal property leased, rented, or loaned for an extended but unspecified period or leased for a term of more than six months, having tax situs at the lessee's situs as provided in regulation 204, shall be valued by estimating the cash price or its equivalent for which the property could be sold at fair market value to an outside customer operating at the same level of trade as the lessee. If that price is unknown, then the value may be estimated by reference to one or more of the following indicators of

value: (1) the lessee's full economic cost of the property with a reasonable allowance for depreciation; or (2) in accordance with subdivision (b).

(e) Tangible personal property acquired from internal sources for self consumption or use, shall be valued by estimating the cash price or its equivalent for which the property could be sold at fair market value to an outside customer using the property at the same trade level. If that price is unknown, then the value may be estimated by reference to one or more of the following indicators of value: (1) the cost of the property in its condition and location on the lien date, had it been acquired at fair market value from an outside supplier (including labor, materials, overhead, interdivisional profits, interest on borrowed or owner supplied funds, sales or use tax, installation, and other costs incurred in bringing the property to a finished state, with appropriate allowances for trade, quantity, or cash discounts, and depreciation); or (2) in accordance with subdivision (b). The quantity discount allowed a manufacturer, when it is its own largest customer, should be at least as large as that allowed its largest wholesale or retail customer.

(f) Tangible personal property in the hands of a person engaged in the function of a manufacturer, wholesaler, or retailer and a consumer shall be valued by estimating the cash price or its equivalent for which the property could be sold at fair market value to an outside customer operating at the same level of trade. The property shall be valued based on how it is situated or used on the lien date pursuant to subdivisions (b), (c), (d), and (e).

*History:* Adopted June 21, 1967, effective July 23, 1967.
Amended February 18, 1970, effective March 26, 1970.
Amended January 6, 1971, effective February 18, 1971.
Amended April 19, 1971, effective May 22, 1971.

**ATTACHMENT A**
**RULE 10: STAFF VERSION**

**ATTACHMENT C**
**RULE 124: STAFF VERSION**
**(No change to current Rule)**

## Rule 124. EXAMPLES

*Reference:* Sections 110, 401, 401.5, 601, Revenue and Taxation Code.
Section 15606, Government Code.

**(a)** The listing that follows is illustrative of the application of the foregoing rules to various items of property, and is not intended to be inclusive of all items of property required to be classified. For the specific items listed, the classification shown will be followed unless there are persuasive distinguishing facts which warrant other classification. However, nothing herein requires classification of an item of property to be dependent upon anything more than what is reasonably manifested by outward appearances, and nothing herein shall preclude the application, to a value estimate of a combination of properties of more than one class, of a percentage representing the appraiser's determination of the amount attributable to each class.

**(b)** The foregoing rules of classification, together with the following listing, relate solely to classification of property and not to evaluation thereof.

(1) LAND.

| | |
|---|---|
| Air rights | Graded ground |
| Alfalfa | Grasses, perennial, natural or planted |
| Artichokes | Levees |
| Asparagus | Leveled ground |
| Bushes | Minerals |
| Contoured ground | Roads, unpaved |
| Date palms, 4 to 8 years old | Shrubs |
| Ditches | Strawberry plants |
| Embankments | Timber, standing |
| Fill (except on property owned by county, municipal corporation or public district) | Water rights |
| | Wells, oil and water |

(2) IMPROVEMENTS.

| | |
|---|---|
| Air conditioner, built-in | Blast furnaces |
| Alarm system | Blinds |
| Awnings | Boilers, built-in |
| Back bars | Booths, restaurant |
| Beds, wall | Booths, spray paint |

**ATTACHMENT C**
**RULE 124: STAFF VERSION**
**(No change to current Rule)**

Rule 124. (Contd.)

Bowling lanes
Breakwaters, artificial (above fill)
Buildings
Cabinets, built-in
Carpets, wall-to-wall
Cash boxes, service station, attached to stands
Check-out stands, built-in
Compressors
Computer components operating an improvement, for example an elevator
Concrete flatwork
Coolers, built-in
Cooler, water evaporator, attached to main line
Counters, bank
Counters, restaurant
Cranes, on fixed ways
Dams (except small earthen)
Drinking fountains
Ducts
Elevators
Escalators
Exhaust systems, built-in
Fences
Fill (on property owned by county, municipal corporation or public district)
Flagpole
Floor covering, hard surface
Flumes
Foundations
Fruit trees, taxable planted (except date palms under 8 years of age)
Furnishings, built-in
Grape stakes, in place
Grape trellises
Kilns
Kitchen appliances, built-in
Laundry machines, launderette
Lighting fixtures
Machinery, heavy or attached, inside or outside of building
Music systems, coin and electric boxes attached to booth or counters
Nut trees, taxable planted
Organs, pipe
Ovens, bake, attached
Partitions, affixed
Piling, for support of structure
Printing press, built-in
Pumps, fixed
Radiators, steam
Railroad spurs
Refrigerator, built-in
Roads, paved
Safe deposit box nests, if attached to building
Safes, imbedded
Scales, truck
Screen, theatre
Shelves, attached
Signs, attached to buildings
Signs on separate supports
Sink, built-in
Sprinkler system, lawn
Sprinkler system, fire
Sprinkler system, agricultural (except portable)
Stoves, built-in
Tanks, buried
Tanks, butane, propane and water softener, unburied but which remain in place
Tellers' cages
Towers, radio and television
Utilities, on-site
Vault doors
Vaults
Vines, taxable, planted
Walls

*History:* Adopted December 12, 1967, effective January 18, 1968. Amended February 25, 1998, effective June 5, 1998.

**ATTACHMENT B**
**NEW RULE: STAFF VERSION**

## Rule 153. LIQUEFIED PETROLEUM GAS TANKS

(a) Definition. For purposes of this regulation, the term liquefied petroleum gas (LPG) tank means and includes a tank used as a means of storage, delivery, or transfer of liquefied petroleum gas products. The term also includes related equipment, apparatus, gauges, meters, and other tangible property, attached to or installed on or with the tank, that is necessary to the storage, delivery or transfer of liquefied petroleum gas products.

(b) An LPG tank shall be considered leased or rented if the purchaser of the liquefied petroleum gas is required to pay sales or use tax on the purchase price or lease or rental amount of the tank, installation fees or charges, maintenance fees or charges, or any other separately stated periodic charge for the LPG tank.

(c) The ultimate consumer of the tanks is determined as follows:

(1) Lessees and renters of LPG tanks, as defined in subdivision (b), are the ultimate consumers of the tanks for the purposes of this regulation.

(2) The owner of the tank is the ultimate consumer of the tank if (i) the property is not considered leased, rented, or loaned pursuant to subdivision (b) of this regulation and (ii) the property is not considered exempt business inventory in accordance with regulation 133.

(d) Tanks and related tangible property shall be valued at the trade level or stage of production of the ultimate consumer as defined in subdivision (c) of this regulation, and in accordance with regulations 4, 6, 8, and 10.