State of California **Board of Equalization**

Memorandum

To : Mr. Timothy W. Boyer
Interim Executive Director, MIC:73

Date: June 9, 2003

From : Deborah Pellegrini, Chief
Board Proceedings Division, MIC:81

Subject : Chief Counsel Matters, June 25, 2003
Property Tax Rule 462.180, *Change In Ownership – Legal entities*

I would like to request your approval to submit Property Tax Rule 462.180, *Change In Ownership – Legal entities,* to the Board for approval at the June 25, 2003, Board meeting. The revised language to the rule was mailed to interested parties on June 9, 2003.

Background

On May 28, 2003, the State Board of Equalization held a public hearing on proposed amendments to Property Tax Rule 462.180, *Change in Ownership – Legal Entities*. In response to staff's proposal, the Board approved staff's changes to the published version of Example 7, and referred the rule to the 15-day file.

Staff's changes to the published version of Example 7, which clarifies that the LLC members from whom the spouses acquire the LLC membership interests are not "original co-owners" because, upon transfer to the LLC, the property was not excluded from change in ownership under section 62, subdivision (a)(2). The changes further explain that the transfer to H and W would not trigger a change in ownership under section 64, subdivision (d), because the sellers are not "original co-owners". The changes simply reference the statutory authorities that provide for creation of "original co-owners" and provide that the transfer would not result in a change in ownership under the facts presented. Thus, the changes do not affect the cost/savings estimate or the revenue statement because the express reference to statutory law was already implicit in the published version.

DP:dgo
Attachment

Approved:

Timothy W. Boyer
Interim Executive Director

Item M
Sub-Item 2
6/25/03

STATE OF CALIFORNIA

STATE BOARD OF EQUALIZATION
450 N STREET, SACRAMENTO, CALIFORNIA
PO BOX 942879, SACRAMENTO, CALIFORNIA 94279-0080
LOU AMBROSE (916) 445-5580
DIANE OLSON (916) 322-9569
FAX (916) 324-3984
www.boe.ca.gov

CAROLE MIGDEN
First District, San Francisco

BILL LEONARD
Second District, Ontario

CLAUDE PARRISH
Third District, Long Beach

JOHN CHIANG
Fourth District, Los Angeles

STEVE WESTLY
State Controller, Sacramento

TIMOTHY W. BOYER
Interim Executive Director

NO. 2003/042

June 9, 2003

TO COUNTY ASSESSORS,
COUNTY COUNSELS, AND
OTHER INTERESTED PARTIES:

CALIFONRIA CODE OF REGULATIONS
TITLE 18. PUBLIC REVENUES

PROPERTY TAX
AMEND RULE 462.180
TRANSFERS OF OWNERSHIP INTERESTS IN LEGAL ENTITIES

15-DAY RULEMAKING FILE

On May 28, 2003, the State Board of Equalization held a public hearing on proposed amendments to Property Tax Rule 462.180 Change in Ownership – Legal Entities. In response to staff's proposal, the Board approved changes to the published version of the regulation.

The approved changes add statutory references to newly added Example 7 to clarify that the LLC members from whom the spouses acquire the LLC membership interests are not "original coowners" because, upon transfer to the LLC, the property was not excluded from change in ownership under section 62, subdivision (a)(2). The changes further explain that the transfer to H and W would not trigger a change in ownership under section 64, subdivision (d) because the sellers are not "original coowners". The changes simply reference the statutory authorities that provide for creation of "original coowners" and provide that the transfer would not result in a change in ownership under the facts presented. These changes are indicated with double underscore and strikeout and brackets ([ ]). A copy of the revised version of the regulation is attached.

In accordance with Government Code section 11346.8(c), the revised version of Rule 462.180 is being placed in the rulemaking file and mailed today to interested parties that commented orally, in writing, or that asked to be informed of such revisions. If you wish to review the rulemaking file, it is available for your inspection at the State Board of Equalization, 450 N Street, Sacramento, CA.

The Board will consider comments if received by June 25, 2003. This matter will be placed on Chief Counsel Matters, June 25, 2003 for the Board's consideration to adopt the revised version. Please mail comments to Diane Olson, Regulations Coordinator, P.O. Box 942879, Sacramento, CA 95814-0080 or email Diane.Olson@boe.ca.gov. If you have questions regarding the substance of the proposed regulation, please call Louis Ambrose at (916) 445-5580 or email Lou.Ambrose@boe.ca.gov.

Sincerely,

Deborah Pellegrini

Deborah Pellegrini, Chief
Board Proceedings Division

State of California
BOARD OF EQUALIZATION
PROPERTY TAX RULES

Chapter 1. State Board of Equalization—Property Tax
Subchapter 4. Equalization by State Board
Article 3. Taxable Property of a County, City or Municipal Corporation

Rule 462.180. CHANGE IN OWNERSHIP - LEGAL ENTITIES.

Reference: Sections 60, 61, 62, 63, 64, and 67, Revenue and Taxation Code; Sections 16909 and 17554, Corporations Code; Section 1351, Civil Code.

(a) TRANSFERS OF REAL PROPERTY TO AND BY LEGAL ENTITIES.

General Rule. The transfer of any interest in real property to a corporation, partnership, limited liability company, or other legal entity is a change in ownership of the real property interest transferred. For purposes of this rule, "real property" or "interests in real property" includes real property interests and fractional interests thereof, the transfer of which constitute a change in ownership under Sections 60 and following applicable sections of the Revenue and Taxation Code and under the applicable change in ownership provisions of the Property Tax Rules.

(b) EXCEPTIONS. The following transfers do not constitute changes in ownership of the real property:

(1) AFFILIATED CORPORATION TRANSFERS. Transfers of real property between or among affiliated corporations, including those made to achieve a corporate reorganization if:

(A) the voting stock of the corporation making the transfer and the voting stock of the transferee corporation are each owned 100 percent by one or more corporations related by voting stock ownership to a common parent, and

(B) the common parent corporation owns directly 100 percent of the voting stock of at least one corporation in the chain(s) of related corporations.

A transfer of real property by P, A, B, or C to any of the other three corporations would not be a change in ownership.

> Example 1: Any transfer by C (wholly owned by A and B) to B (wholly owned by A and P) would not be a change in ownership because of those relationships and because P owns 100% of A.

If real property is transferred between non-affiliated corporations, only the property transferred shall be deemed to have undergone a change in ownership.

(2) PROPORTIONAL TRANSFERS OF REAL PROPERTY. Transfers of real property between separate legal entities or by an individual to a legal entity (or vice versa), which results solely in a change in the method of holding title and in which the proportional ownership interests in each and every piece of real property transferred remain the same after the transfer. (The holders of the ownership interests in the transferee legal entity, whether such interests are represented by stock, partnership interests, or other types of ownership interests, shall be defined as "original co-owners" for purposes of determining whether a change in ownership has occurred upon the subsequent transfer of the ownership interests in the legal entity.) This subdivision shall not apply to a transfer of real property which is also excluded from change in ownership pursuant to subdivision (b)(1) (transfers between or among affiliated corporations).

Examples of Transfers of Real Property in Legal Entities:

Example 2: A transfer of real property from A and B, as equal co-tenants, to Corporation X, where A and B each take back 50 percent of the stock. No change in ownership. However, if A and B each take back 49 percent of the stock and C receives 2 percent of the stock then there will be a change in ownership of the entire property.

Example 3: A transfers Whiteacre to Corporation X and B transfers Blackacre (equal in value to Whiteacre) to Corporation X. A and B each take back 50 percent of the stock. Change in ownership of 100 percent of both Whiteacre and Blackacre.

Example 4: Corporation X owns Blackacre and Whiteacre (both are of equal value). A and B each own 50 percent of Corporation X's shares. X transfers Whiteacre to A and Blackacre to B. Change in ownership of 100 percent of both Blackacre and Whiteacre. However, if Corporation X transfers Whiteacre and Blackacre to both A and B as joint tenants or as equal tenants in common, there is no change in ownership.

Example 5: A transfer of real property from Corporation X to its sole shareholder A. No change in ownership, even if A is an "original co-owner", because interests in real property, and not ownership interests in a legal entity, are being transferred.

(c) TRANSFERS OF OWNERSHIP INTERESTS IN LEGAL ENTITIES:

General Rule. The purchase or transfer of corporate stock, partnership interests, or ownership interests in other legal entities is not a change in ownership of the real property of the legal entity, pursuant to Section 64(a) of the Revenue and Taxation Code.

(d) EXCEPTIONS. The following transfers constitute changes in ownership, except as provided in (d)(4) which is an exclusion from change in ownership:

(1) CONTROL. When any corporation, partnership, limited liability company, Massachusetts business trust or similar trust, other legal entity, or any person:

(A) obtains through a reorganization or any transfer, direct or indirect ownership or control of more than 50 percent of the voting stock in any corporation which is not a member of the same affiliated group of corporations as described in (b)(1), or

(B) obtains through multi-tiering, reorganization, or any transfer direct or indirect ownership of more than 50 percent of the total interest in partnership or LLC capital and more than 50 percent of the total interest in partnership or LLC profits, or

(C) obtains through any transfer direct or indirect ownership of more than 50 percent of the total ownership interest in any other legal entity.

Upon the acquisition of such direct or indirect ownership or control, which may include any purchase or transfer of 50 percent or less of the ownership interest through which control or a majority ownership interest is obtained, all of the property owned directly or indirectly by the acquired legal entity is deemed to have undergone a change in ownership.

(2) TRANSFERS OF MORE THAN 50 PERCENT. When on or after March 1, 1975, real property is transferred to a partnership, corporation, limited liability company, or other legal entity and the transfer is excluded from change in ownership under Section 62(a)(2) of the Revenue and Taxation Code, and the "original co-owners" subsequently transfer, in one or more transactions, cumulatively more than 50 percent of the total control or ownership interests, as defined in subdivision (d)(1), in that partnership, corporation, limited liability company or legal entity, there is a change in ownership of only that property owned by the entity which was previously excluded under Section 62 (a)(2). However, when such transfer would also result in a change in control under Section 64(c) of the Revenue and Taxation Code, then reappraisal of the property owned by the corporation, partnership, limited liability company, or other legal entity shall be pursuant to Section 64(c) rather than Section 64(d).

For purposes of this subdivision ((d)(2)), interspousal transfers excluded under Section 63 of the Revenue and Taxation Code, transfers into qualifying trusts excluded under Section 62(d) of the Revenue and Taxation Code, and proportional transfers excluded under Section 62(a)(2) of the Revenue and Taxation Code shall not be cumulated or counted to determine a change in ownership.

Examples of Transfers of Interests in Legal Entities:

> Example 6: A and B each own 50 percent of the stock of Corporation X. Corporation X acquires Whiteacre from Corporation Y, an unaffiliated corporation in which neither A nor B has interests, and Whiteacre is reappraised upon acquisition. A transfers 30 percent of Corporation X's stock to C, and B later transfers 25 percent of Corporation X's stock to C. Upon C's acquisition of

55 percent of Corporation X's stock, there is a change in control of Corporation X under Section 64(c) and a reappraisal of Whiteacre.

Example 7: Spouses H and W acquire as community property from the current owners, who are not original coowners, 100% of the capital and profits interests in an LLC which owns Blackacre. Each of H and W is treated as acquiring 50 percent of the ownership interests as defined in subdivision (c) and Revenue and Taxation Code section 64(a). No change in control of the LLC; no change in ownership of Blackacre.

Example ~~7~~ 8: A and B, hold equal interests as tenants in common in Greenacre, a parcel of real property. A and B transfer Greenacre to Corporation Y and in exchange A and B each receive 50 percent of the corporate stock. No change in ownership pursuant to Section 62(a)(2). Pursuant to Section 64(d), A and B become original coowners. A transfers 30 percent of Corporation Y's stock to C (A's child), and B then transfers 25 percent of Corporation Y's stock to D (B's grandchild). Change in ownership of Greenacre upon B's transfer to D. Parent/child and grandparent/grandchild exclusions are not applicable to transfers of interests in legal entities. However, if the same transfers were made by A and B to their respective spouses, no change in ownership pursuant to Section 63 and Rule 462.220.

(3) COOPERATIVE HOUSING CORPORATION. When the stock transferred in a cooperative housing corporation ("stock cooperative" as defined in subdivision (m) of Section 1351 of the Civil Code) conveys the exclusive right to occupancy of all or part of the corporate property, unless:

(A) the cooperative was financed under one mortgage which was insured under Sections 213, 221(d)(3), 221(d)(4), or 236 of the National Housing Act, as amended, or was financed or assisted pursuant to Sections 514, 515, or 516 of the Housing Act of 1949, or Section 202 of the Housing Act of 1959, or was financed by a direct loan from the California Housing Finance Agency, and,

(B) the regulatory and occupancy agreements were approved by the respective insuring or lending agency, and

(C) the transfer is from the housing cooperative to a person or family qualifying for purchase by reason of limited income.

(4) PROPORTIONAL INTEREST TRANSFERS. Transfers of stock, partnership interests, limited liability company interests, or any other interests in legal entities between legal entities or by an individual to a legal entity (or vice versa) which result solely in a change in the method of holding title and in which proportional ownership interests of the transferors and transferees, in each and every piece of property represented by the interests transferred, remain the same after the transfer, do not constitute changes in ownership, as provided in subdivision (b)(2) of this rule and Section

62(a)(2) of the Revenue and Taxation Code. This provision shall not apply to a statutory conversion or statutory merger of a partnership into a limited liability company or other partnership (or a limited liability company into a partnership) when the law of the jurisdiction of the converted or surviving entity provides that such entity remains the same entity or succeeds to the assets of the converting or disappearing entity without other act or transfer and the partners or members of the converting or disappearing entity maintain the same ownership interest in profits and capital of the converted or surviving entity that they held in the converting or disappearing entity.

Examples of Excluded Proportional Interest Transfers:

> Example ~~8~~ 9: General Partnership (GP), which owns Whiteacre and in which A and B hold equal partnership interests, converts to Limited Partnership (LP) under the Revised Uniform Partnership Act of 1994 (California Corporations Code section 16100 et seq.). As a result of the conversion, A and B each hold 50 percent of the LP interests in capital and profits. No change in ownership of Whiteacre upon the conversion, because, under Section 16909 of the Corporations Code, there is no transfer of Whiteacre. Section 62(a)(2) of the Revenue and Taxation Code does not apply. However, if A and B were "original coowners" in GP, they remain "original coowners" in LP.
>
> Example ~~9~~ 10: Following the conversion in Example 8, A and B each transfer 30 percent of their capital and profits interests in LP to Limited Liability Company (LLC), which is owned equally by A and B. Each retain an equal 20 percent interest in LP. No change in ownership of Whiteacre pursuant to Section 62(a)(2) because A and B own 100 percent of both LP and LLC and their respective proportional interests remain the same after the transfer. Neither section 64(c) nor section 64(d) of the Revenue and Taxation Code applies to this transfer, although A and B become "original coowners" with respect to their interests in LLC.
>
> Example ~~10~~ 11: A limited partnership (LP), which owns Blackacre and in which C and D hold equal partnership interests, changes its form to a limited liability company (LLC), in which C and D hold equal membership interests, by statutory merger under the California Revised Limited Partnership Act (California Corporations Code section 15611 et seq.) and the Beverly-Killea Limited Liability Company Act (California Corporations Code section 17000 et seq.). No change in ownership of Blackacre upon the change in form because under section 17554 of the California Corporations Code, there is not a transfer of property from LP to LLC. Section 62(a)(2) of the Revenue and Taxation Code does not apply. However, if C and D were "original coowners" in LP, they remain "original coowners" in LLC.

(e) PARTNERSHIPS.

(1) TRANSFERS OF REAL PROPERTY BY PARTNERSHIPS. General Rule. Except as provided by (b)(2), where the proportional ownership interests remain the

same, when real property is contributed to a partnership or is acquired, by purchase or otherwise, by the partnership, there is a change in ownership of such real property, regardless of whether the title to the property is held in the name of the partnership or in the name of the partners with or without reference to the partnership. Except as provided by (b)(2), where the proportional ownership interests remain the same, the transfer of any interest in real property by a partnership to a partner or any other person or entity constitutes a change in ownership.

(2) Except as provided in (d)(1)(B) and (d)(2), the addition or deletion of partners in a continuing partnership does not constitute a change in ownership of partnership property.

History: Adopted June 29, 1978, effective July 3, 1978.
Amended September 26, 1978, effective October 2, 1978.
Repealed Old Rule and Adopted New Rule August 16, 1979, effective August 22, 1979.
Amended November 13, 1979, effective December 6, 1979.
Amended May 5, 1981, effective August 12, 1981.
Amended March 31, 1982, effective June 10, 1982.
Amended May 11, 1994, effective June 10, 1994. Renumbered, formerly 462 (j). Amended and effective December 19, 1995. Amended subdivision (b)(1)(b) to insert the "Simple Example" diagram, at the end of the first sentence.

The "Simple Example" diagram was inadvertently omitted in the renumbering amendments that previously were approved to former Rule 462.
Amended December 9, 1998, effective April 8, 1999. Amended subdivisions (a), (b), (c), (d) and (e) to delete and to update outdated portions of the rule and to clarify other provisions.

KEC:tr
rules/462.180/03/Rule

State of California
BOARD OF EQUALIZATION
PROPERTY TAX RULES

Chapter 1. State Board of Equalization—Property Tax
Subchapter 4. Equalization by State Board
Article 3. Taxable Property of a County, City or Municipal Corporation

Rule 462.180. CHANGE IN OWNERSHIP - LEGAL ENTITIES.

Reference: Sections 60, 61, 62, 63, 64, and 67, Revenue and Taxation Code; Sections 16909 and 17554, Corporations Code; Section 1351, Civil Code.

(a) TRANSFERS OF REAL PROPERTY TO AND BY LEGAL ENTITIES.

General Rule. The transfer of any interest in real property to a corporation, partnership, limited liability company, or other legal entity is a change in ownership of the real property interest transferred. For purposes of this rule, "real property" or "interests in real property" includes real property interests and fractional interests thereof, the transfer of which constitute a change in ownership under Sections 60 and following applicable sections of the Revenue and Taxation Code and under the applicable change in ownership provisions of the Property Tax Rules.

(b) EXCEPTIONS. The following transfers do not constitute changes in ownership of the real property:

(1) AFFILIATED CORPORATION TRANSFERS. Transfers of real property between or among affiliated corporations, including those made to achieve a corporate reorganization if:

(A) the voting stock of the corporation making the transfer and the voting stock of the transferee corporation are each owned 100 percent by one or more corporations related by voting stock ownership to a common parent, and

(B) the common parent corporation owns directly 100 percent of the voting stock of at least one corporation in the chain(s) of related corporations.

A transfer of real property by P, A, B, or C to any of the other three corporations would not be a change in ownership.

> Example 1: Any transfer by C (wholly owned by A and B) to B (wholly owned by A and P) would not be a change in ownership because of those relationships and because P owns 100% of A.

If real property is transferred between non-affiliated corporations, only the property transferred shall be deemed to have undergone a change in ownership.

(2) PROPORTIONAL TRANSFERS OF REAL PROPERTY. Transfers of real property between separate legal entities or by an individual to a legal entity (or vice versa), which results solely in a change in the method of holding title and in which the proportional ownership interests in each and every piece of real property transferred remain the same after the transfer. (The holders of the ownership interests in the transferee legal entity, whether such interests are represented by stock, partnership interests, or other types of ownership interests, shall be defined as "original co-owners" for purposes of determining whether a change in ownership has occurred upon the subsequent transfer of the ownership interests in the legal entity.) This subdivision shall not apply to a transfer of real property which is also excluded from change in ownership pursuant to subdivision (b)(1) (transfers between or among affiliated corporations).

Examples of Transfers of Real Property in Legal Entities:

Example 2: A transfer of real property from A and B, as equal co-tenants, to Corporation X, where A and B each take back 50 percent of the stock. No change in ownership. However, if A and B each take back 49 percent of the stock and C receives 2 percent of the stock then there will be a change in ownership of the entire property.

Example 3: A transfers Whiteacre to Corporation X and B transfers Blackacre (equal in value to Whiteacre) to Corporation X. A and B each take back 50 percent of the stock. Change in ownership of 100 percent of both Whiteacre and Blackacre.

Example 4: Corporation X owns Blackacre and Whiteacre (both are of equal value). A and B each own 50 percent of Corporation X's shares. X transfers Whiteacre to A and Blackacre to B. Change in ownership of 100 percent of both Blackacre and Whiteacre. However, if Corporation X transfers Whiteacre and Blackacre to both A and B as joint tenants or as equal tenants in common, there is no change in ownership.

Example 5: A transfer of real property from Corporation X to its sole shareholder A. No change in ownership, even if A is an "original co-owner", because interests in real property, and not ownership interests in a legal entity, are being transferred.

(c) TRANSFERS OF OWNERSHIP INTERESTS IN LEGAL ENTITIES:

General Rule. The purchase or transfer of corporate stock, partnership interests, or ownership interests in other legal entities is not a change in ownership of the real property of the legal entity, pursuant to Section 64(a) of the Revenue and Taxation Code.

(d) EXCEPTIONS. The following transfers constitute changes in ownership, except as provided in (d)(4) which is an exclusion from change in ownership:

(1) CONTROL. When any corporation, partnership, limited liability company, Massachusetts business trust or similar trust, other legal entity, or any person:

(A) obtains through a reorganization or any transfer, direct or indirect ownership or control of more than 50 percent of the voting stock in any corporation which is not a member of the same affiliated group of corporations as described in (b)(1), or

(B) obtains through multi-tiering, reorganization, or any transfer direct or indirect ownership of more than 50 percent of the total interest in partnership or LLC capital and more than 50 percent of the total interest in partnership or LLC profits, or

(C) obtains through any transfer direct or indirect ownership of more than 50 percent of the total ownership interest in any other legal entity.

Upon the acquisition of such direct or indirect ownership or control, which may include any purchase or transfer of 50 percent or less of the ownership interest through which control or a majority ownership interest is obtained, all of the property owned directly or indirectly by the acquired legal entity is deemed to have undergone a change in ownership.

(2) TRANSFERS OF MORE THAN 50 PERCENT. When on or after March 1, 1975, real property is transferred to a partnership, corporation, limited liability company, or other legal entity and the transfer is excluded from change in ownership under Section 62(a)(2) of the Revenue and Taxation Code, and the "original co-owners" subsequently transfer, in one or more transactions, cumulatively more than 50 percent of the total control or ownership interests, as defined in subdivision (d)(1), in that partnership, corporation, limited liability company or legal entity, there is a change in ownership of only that property owned by the entity which was previously excluded under Section 62 (a)(2). However, when such transfer would also result in a change in control under Section 64(c) of the Revenue and Taxation Code, then reappraisal of the property owned by the corporation, partnership, limited liability company, or other legal entity shall be pursuant to Section 64(c) rather than Section 64(d).

For purposes of this subdivision ((d)(2)), interspousal transfers excluded under Section 63 of the Revenue and Taxation Code, transfers into qualifying trusts excluded under Section 62(d) of the Revenue and Taxation Code, and proportional transfers excluded under Section 62(a)(2) of the Revenue and Taxation Code shall not be cumulated or counted to determine a change in ownership.

Examples of Transfers of Interests in Legal Entities:

> Example 6: A and B each own 50 percent of the stock of Corporation X. Corporation X acquires Whiteacre from Corporation Y, an unaffiliated corporation in which neither A nor B has interests, and Whiteacre is reappraised upon acquisition. A transfers 30 percent of Corporation X's stock to C, and B later transfers 25 percent of Corporation X's stock to C. Upon C's acquisition of

55 percent of Corporation X's stock, there is a change in control of Corporation X under Section 64(c) and a reappraisal of Whiteacre.

Example 7: Spouses H and W acquire as community property from the current owners, who are not original coowners, 100% of the capital and profits interests in an LLC which owns Blackacre. Each of H and W is treated as acquiring 50 percent of the ownership interests as defined in subdivision (c) and Revenue and Taxation Code section 64(a). No change in control of the LLC; no change in ownership of Blackacre.

Example ~~7~~ 8: A and B, hold equal interests as tenants in common in Greenacre, a parcel of real property. A and B transfer Greenacre to Corporation Y and in exchange A and B each receive 50 percent of the corporate stock. No change in ownership pursuant to Section 62(a)(2). Pursuant to Section 64(d), A and B become original coowners. A transfers 30 percent of Corporation Y's stock to C (A's child), and B then transfers 25 percent of Corporation Y's stock to D (B's grandchild). Change in ownership of Greenacre upon B's transfer to D. Parent/child and grandparent/grandchild exclusions are not applicable to transfers of interests in legal entities. However, if the same transfers were made by A and B to their respective spouses, no change in ownership pursuant to Section 63 and Rule 462.220.

(3) COOPERATIVE HOUSING CORPORATION. When the stock transferred in a cooperative housing corporation ("stock cooperative" as defined in subdivision (m) of Section 1351 of the Civil Code) conveys the exclusive right to occupancy of all or part of the corporate property, unless:

(A) the cooperative was financed under one mortgage which was insured under Sections 213, 221(d)(3), 221(d)(4), or 236 of the National Housing Act, as amended, or was financed or assisted pursuant to Sections 514, 515, or 516 of the Housing Act of 1949, or Section 202 of the Housing Act of 1959, or was financed by a direct loan from the California Housing Finance Agency, and,

(B) the regulatory and occupancy agreements were approved by the respective insuring or lending agency, and

(C) the transfer is from the housing cooperative to a person or family qualifying for purchase by reason of limited income.

(4) PROPORTIONAL INTEREST TRANSFERS. Transfers of stock, partnership interests, limited liability company interests, or any other interests in legal entities between legal entities or by an individual to a legal entity (or vice versa) which result solely in a change in the method of holding title and in which proportional ownership interests of the transferors and transferees, in each and every piece of property represented by the interests transferred, remain the same after the transfer, do not constitute changes in ownership, as provided in subdivision (b)(2) of this rule and Section

62(a)(2) of the Revenue and Taxation Code. This provision shall not apply to a statutory conversion or statutory merger of a partnership into a limited liability company or other partnership (or a limited liability company into a partnership) when the law of the jurisdiction of the converted or surviving entity provides that such entity remains the same entity or succeeds to the assets of the converting or disappearing entity without other act or transfer and the partners or members of the converting or disappearing entity maintain the same ownership interest in profits and capital of the converted or surviving entity that they held in the converting or disappearing entity.

Examples of Excluded Proportional Interest Transfers:

> Example ~~8~~ 9: General Partnership (GP), which owns Whiteacre and in which A and B hold equal partnership interests, converts to Limited Partnership (LP) under the Revised Uniform Partnership Act of 1994 (California Corporations Code section 16100 et seq.). As a result of the conversion, A and B each hold 50 percent of the LP interests in capital and profits. No change in ownership of Whiteacre upon the conversion, because, under Section 16909 of the Corporations Code, there is no transfer of Whiteacre. Section 62(a)(2) of the Revenue and Taxation Code does not apply. However, if A and B were "original coowners" in GP, they remain "original coowners" in LP.
>
> Example ~~9~~ 10: Following the conversion in Example 8, A and B each transfer 30 percent of their capital and profits interests in LP to Limited Liability Company (LLC), which is owned equally by A and B. Each retain an equal 20 percent interest in LP. No change in ownership of Whiteacre pursuant to Section 62(a)(2) because A and B own 100 percent of both LP and LLC and their respective proportional interests remain the same after the transfer. Neither section 64(c) nor section 64(d) of the Revenue and Taxation Code applies to this transfer, although A and B become "original coowners" with respect to their interests in LLC.
>
> Example ~~10~~ 11: A limited partnership (LP), which owns Blackacre and in which C and D hold equal partnership interests, changes its form to a limited liability company (LLC), in which C and D hold equal membership interests, by statutory merger under the California Revised Limited Partnership Act (California Corporations Code section 15611 et seq.) and the Beverly-Killea Limited Liability Company Act (California Corporations Code section 17000 et seq.). No change in ownership of Blackacre upon the change in form because under section 17554 of the California Corporations Code, there is not a transfer of property from LP to LLC. Section 62(a)(2) of the Revenue and Taxation Code does not apply. However, if C and D were "original coowners" in LP, they remain "original coowners" in LLC.

(e) PARTNERSHIPS.

(1) TRANSFERS OF REAL PROPERTY BY PARTNERSHIPS. General Rule. Except as provided by (b)(2), where the proportional ownership interests remain the

same, when real property is contributed to a partnership or is acquired, by purchase or otherwise, by the partnership, there is a change in ownership of such real property, regardless of whether the title to the property is held in the name of the partnership or in the name of the partners with or without reference to the partnership. Except as provided by (b)(2), where the proportional ownership interests remain the same, the transfer of any interest in real property by a partnership to a partner or any other person or entity constitutes a change in ownership.

(2) Except as provided in (d)(1)(B) and (d)(2), the addition or deletion of partners in a continuing partnership does not constitute a change in ownership of partnership property.

History: Adopted June 29, 1978, effective July 3, 1978.
Amended September 26, 1978, effective October 2, 1978.
Repealed Old Rule and Adopted New Rule August 16, 1979, effective August 22, 1979.
Amended November 13, 1979, effective December 6, 1979.
Amended May 5, 1981, effective August 12, 1981.
Amended March 31, 1982, effective June 10, 1982.
Amended May 11, 1994, effective June 10, 1994. Renumbered, formerly 462 (j). Amended and effective December 19, 1995. Amended subdivision (b)(1)(b) to insert the "Simple Example" diagram, at the end of the first sentence.

The "Simple Example" diagram was inadvertently omitted in the renumbering amendments that previously were approved to former Rule 462.
Amended December 9, 1998, effective April 8, 1999. Amended subdivisions (a), (b), (c), (d) and (e) to delete and to update outdated portions of the rule and to clarify other provisions.

KEC:tr
rules/462.180/03/Rule

REGULATION HISTORY

TYPE OF REGULATION: Property Tax
REGULATION: 462.180
TITLE: Transfers of Ownership Interests in Legal Entities
PREPARATION: Kristine Cazadd/Louis Ambrose
LEGAL CONTACT: Kristine Cazadd/Louis Ambrose

Proposed amendments to Property Tax Rule 462.180, *Change in Ownership – Legal Entities* are clarifying the treatment of limited liability company membership interests and legal entity ownership interests held by spouses as community property.

REGULATION HISTORY

June 25, 2003:	Placed on Chief Counsel Matters for Board adoption.
June 9, 2003:	Revised Language e-mailed and mailed to interested parties.
May 28, 2003:	Public Hearing – The Board approved staff's changes to the published version of Example 7, and referred the rule to the 15-day file.
April 11, 2003:	45-Day Public Comment begins - Notice of Public Hearing published in California Regulatory Notice Register, Register 2003, NO.15-Z, e-mailed and mailed to interested parties.
December 19, 2003:	The Board approved the petition and authorized publication of the rule on Chief Counsel Matters Calendar.
November 21, 2002:	Issue Paper completed on petition to amend rule.
August 2, 2002:	Petition to amend rule submitted by Gary W. Meader, HellerEhrman Attorneys.