STATE OF CALIFORNIA

STATE BOARD OF EQUALIZATION
1020 N STREET, SACRAMENTO, CALIFORNIA
(P.O. BOX 1799, SACRAMENTO, CALIFORNIA 95808)
(916) 445-4982

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January 26, 1982

No. 82/12

TO COUNTY ASSESSORS:

CORRECTIONS TO DISASTER RELIEF ASSESSMENT PROCEDURES IN THE LIGHT OF SENATE BILL 139

In our letter to county assessors dated October 9, 1981 (81/123), we presented guidelines for disaster relief assessment procedures as they were modified by Senate Bill 139. In that letter we demonstrated methods of calculating property taxes on a property after it was damaged in a calamity and during its reconstruction. Those illustrations were based on the assumption that an inflation factor is not applicable to interim values established while the property is in a damaged condition.

A re-examination of subdivision (g) of Section 170 of the Revenue and Taxation Code as amended by Senate Bill 139 leads us to the conclusion that this is not correct. Proper procedure is to apply an inflation factor to all interim values enrolled for years subsequent to the year of last enrollment prior to the calamity.

We also originally recommended that in estimating values of partially restored properties that the value last enrolled before the calamity be multiplied by an observed "percent-good" of the entire structure at lien date. We are now suggesting that in each year of reconstruction, the amount of the initial reduction in base year value be multiplied by an estimated percentage of restoration to determine the amount of taxable value.

These changes will result in several changes in the examples presented in letter to assessors 81/123. In example 1, (Part G on page 4), since the disaster occurred in September 1981, the damaged value for lien date 1982 should include an additional 2 percent. Thus the 1982-83 taxable value should be computed as follows:

(G) Computation of 1982-83 Tax Liability

Land	$56,300 x 1.02 x 75% = (Last value enrolled) (Percent of Damage)	$43,070
Improvement	$168,900 x 1.02 x 10% - (Last value enrolled) (Percent of Damage)	+17,228
	Total	60,298
	Tax Rate	x .0125
	Tax Liability	$ 754

Example 2 should be restated to illustrate the use of a percent restored concept rather than a percent good concept as well as allowing for inflation factors on undamaged property.

Restated Example 2: Assume the property is partially restored by the subsequent lien date March 1, 1983. The damage to the structures has been 50% repaired and they are being rebuilt exactly as they stood before the fire. The site has been cleared and the landscaping has been replaced. The site is now restored to the pre-calamity condition. In addition, the owner has constructed a new detached storage building on his lot. It is 100% complete on the lien date. The 1983-84 tax liability would be computed as follows:

(A) Current year taxable value for land

Land $56,300 x 1.0404 = $ 58,575

(B) Partially Restored Improvement Value:

Taxable Improvement Value Before Calamity	168,900
Taxable Improvement Value After Calamity Adjustment 9/81	- 16,890
Reduction in Taxable Value 9/81	$152,010
Taxable Value Restored for 1983 $152,010 x 50% =	$ 76,005
1982 Taxable Improvement Value Factored for 1983 $17,228 x 1.02 =	17,573
New Storage Building	+ 10,000
1983 Taxable Improvement Value =	$103,578
Total 1983 Taxable Value $58,575 + $103,578	162,153
Tax Rate	x .0125
1983-84 Tax Liability	$ 2,027

In Example 3, where calamity took place in April 1982 and the restoration was completed by December 1982, the calculation of the initial taxable value in subdivision (B) would also be affected:

Initial Taxable Value for 1982-83:

Land ($56,300 x 1.02 x 75%) =	$ 43,070
Improvement ($168,900 x 1.02 x 10%) =	17,228
Total	$60,298

Subdivision (D), Determination of 1982-83 Tax Liability, would be amended to read:

$$\frac{6 \text{ (months damaged)}}{12 \text{ (number of months in year)}} \times \$754^* = \$ \quad 377$$

*$60,298 x .0125 = $754

In addition to the above changes we have had questions regarding differences in the computation of tax liability where property is damaged between the lien date and the end of the fiscal year as opposed to property damaged after the end of the fiscal year. The following examples illustrate these differences.

EXAMPLE A:

Assume that a calamity takes place on April 15, 1980. The 1979-80 assessed values are: Land $20,000, Improvements $50,000, the tax rate is .0125. The land is not damaged but improvement value is reduced by 50 percent. The property is restored by November 7, 1981 to its condition before the disaster.

A. Computation of 1979-80 tax liability before calamity

Land	$20,000
Improvements	$50,000
Total Taxable Value	$70,000
Tax Rate	x .0125
Current Year's Tax Liability	$ 875

B. Computation of tax liability in damaged condition

Land	$20,000 x 100%	=	$20,000
Improvements	50,000 x 50%	=	+25,000
Total			$45,000
Tax Rate			x .0125
Tax Liability in Damaged Condition			$ 563

C. Computation of 1979-80 tax liability

$\frac{\text{9 months undamaged}}{\text{12 months in year}}$	x $875	=	$ 656
$\frac{\text{3 months damaged}}{\text{12 months in year}}$	x $563	=	+$ 141
			$ 797
Refund $875 - $797		=	$ 78

D. Computation of 1980-81 tax liability in undamaged condition

Land $20,000 x 1.02	=	20,400
Improvements 50,000 x 1.02	=	+51,000
Total		71,400
Tax Rate		x .0125
Tax Liability Undamaged		$ 893

E. Computation of 1980-81 tax liability in damaged condition.

Land 20,400 x 100%	=	$20,400
Improvements 51,000 x 50%	=	+$25,500
Total		$45,900
Tax Rate		x .0125
Tax Liability in Damaged Condition		$ 574

F. Computation of 1980-81 tax liability

$\frac{\text{7 months undamaged}}{\text{12 months in year}}$ x $893 = $ 521

$\frac{\text{5 months damaged}}{\text{12 month in year}}$ x $574 = + 239

1980-81 Tax Liability $ 760

EXAMPLE B:

Assume the same facts as in example A except that the calamity takes place on August 15,1980.

A. Tax liability in undamaged condition $ 893
(From "D" above)

B. Tax liability in damaged condition $ 574
(From "E" above)

C. Computation of 1980-81 tax liability

$\frac{\text{1 month undamaged}}{\text{12 months in year}}$ x $893 = $ 74

$\frac{\text{11 months remaining in Fiscal Year}}{\text{12 months in year}}$ x $574 = $ 526

1980-81 tax liability = $ 600

This treatment results from the wording of Subsection (e) of Section 170 of the Revenue and Taxation Code. When a calamity occurs prior to the lien date, the section instructs the assessor to prorate the tax liability of the property in its undamaged condition on the basis of the fraction of the year prior to the month that the calamity occurs. The tax liability in the damaged condition is prorated in proportion to the fraction of the fiscal year that is remaining including the month of the calamity. There is no provision in this case for excluding the portion of the fiscal year remaining after the property is restored.

When a calamity occurs after the lien date, a similar proration is made for the current fiscal year. In addition, if the property is completely restored in the next fiscal year, a proration is made based upon the relationship of the portion of the fiscal year prior to and including the month of rehabilitation and the remainder of the fiscal year.

Please direct your questions about these revisions to the Technical Services (Real Property) Section of this Division at 445-4982.

Sincerely,

Verne Walton

Verne Walton, Chief
Assessment Standards Division

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