

10-16-08 - Sean Kinnee
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October 15, 2008

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**DEPUTY DIRECTOR
PROPERTY AND SPECIAL TAXES**

Mr. David J. Gau
Deputy Director
Property and Special Taxes Department
State Board of Equalization
P.O. Box 942879
Sacramento, California 94279

Subject: Proposed Inclusion of Economic Lives in Assessors' Handbook Section 581 (AH 581)

Dear Mr. Gau:

We are in receipt of your invitation to participate in an interested parties meeting regarding the proposed inclusion of economic lives for various categories of property/equipment in AH 581, scheduled for November 5, 2008. This is to register formal, written comments with respect to the proposal to be discussed at that meeting. We appreciate the Board's willingness to allow interested parties to provide input regarding this proposal. As you know, the inclusion of a table of economic lives is highly controversial, and directly affects the liability of numerous taxpayers.

First, we wish to clarify what appears to be an oversight in the meeting notice. The notice specifies: "The reproduction cost new less depreciation represents the taxable fair market value of the property." This statement is slightly misleading, as the taxable fair market value of the property also includes other factors such as obsolescence.

At its August meeting in Sacramento, the Board approved petition procedures for future property tax valuation factor studies "to provide guidance to industry in identifying, gathering, and verifying data to submit to Board staff for the purpose of conducting a valuation study of their personal property/equipment." (Issue Paper 08-009 at 3.) Nonetheless, Board staff has submitted a proposal for inclusion of economic lives in AH 581 without disclosing its rationale or data to support the inclusion. Thus, if the proposed economic lives are included in AH 581, the burden shifts to the taxpayer to disprove what the Board has included without adequate substantiation.

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A preferred approach would be that the Board justify any valuation tables included in AH 581 with specific data or research indicating the basis for the included economic lives before publishing them. Given the stakes, a vague reference to *Marshall Valuation Service, Internal Revenue Service Publication 946*, and other states' valuation tables is inadequate.

To develop this data, as a first step, we recommend identifying the most contentious categories of property/equipment. Next, we suggest working with industry in those categories through the interested parties process to develop tables that are well-substantiated. We appreciate the desire to adopt clear tables to reduce the guesswork associated with economic lives and the level of staff time that will go into developing data. However, we also believe that well-substantiated tables that are industry-supported will be less subject to challenge and save time and money in the long term.

The interested parties process appears to have worked well with regard to valuation factors for non-production computer equipment, semiconductor manufacturing equipment, and biopharmaceutical industry equipment and fixtures. We believe that it is also a useful tool with regard to developing other tables.

Again, we appreciate the opportunity to submit these comments, and remain ready and willing to offer our assistance throughout the course of this process.

Respectfully Submitted,



Michele Pielsticker
Vice President and General Counsel