

Issue Paper Number 07-002



- Board Meeting
- Business Taxes Committee
- Customer Services and Administrative Efficiency Committee
- Legislative Committee
- Property Tax Committee
- Other

Definition of Semiconductor Manufacturing Equipment

I. Issue

What definition of *semiconductor manufacturing equipment* should the Board adopt to define the scope of the semiconductor manufacturing equipment valuation factors studies conducted pursuant to Budget Change Proposal 6 (2006-2007)?

II. Staff Recommendation

Staff recommends that the attached definition of *semiconductor manufacturing equipment* be adopted (Attachment A).

III. Other Alternative(s) Considered

Not Applicable.

IV. Background

The State Board of Equalization (Board) co-administers the property tax in California with the county assessors. The 58 county assessors are charged with the assessment of locally assessed real and personal property for taxation purposes, and resolution of appeals of property values at local levels in conjunction with county assessment appeals boards. The Board's role is advisory and does not include setting values for any locally assessed property or for resolving disputes over those assessments.

The Board is mandated by section 401.5 of the Revenue and Taxation Code to promulgate guidance for county assessors to follow in valuing locally assessed property, and for assessment appeals boards when equalizing locally assessed property. In an effort to meet that mandate, the Board annually publishes Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors* (AH 581), to use as a guide in the mass appraisal of personal property and fixtures. Among other data, AH 581 contains tables of valuation factors for semiconductor manufacturing equipment. The semiconductor manufacturing equipment valuation factors were initially approved by the Board in 1994.

Industry representatives expressed interest for the Board to review current data to validate or update the information contained in AH 581 relative to the semiconductor manufacturing equipment valuation factors. Conducting studies based on current data will result in the ability to calculate more reliable and accurate assessed values. As a result, there may be fewer disputes between county assessors and taxpayers over values and a resultant decrease in the number of assessment appeals filed.

The Board recently received funding on a two-year limited basis¹ to create and participate on a team that will conduct studies in the development of valuation factors for semiconductor manufacturing equipment.

V. Discussion

The Board began the valuation factor studies process by holding an interested parties meeting on August 7, 2006. At that meeting, it was agreed that the team that would conduct the studies should be comprised of Board staff, two individuals from county assessors' offices, and two individuals from industry. Subsequently, working with the California Assessors' Association and the California Taxpayers' Association, the following team was formed:

Mike Harris, Chair	State Board of Equalization
Isaac Cruz	State Board of Equalization
Bill Harris	Intel Corporation
Alan Schultz	PricewaterhouseCoopers LLP
Ginny Hamley	Santa Clara County Assessor's Office
Richard Leong	Santa Clara County Assessor's Office

As a starting point, a definition of *semiconductor manufacturing equipment* must be determined in order to define the parameters of the studies. The Semiconductor Manufacturing Equipment Team held a meeting on September 20, 2006 in Sacramento, and subsequently had conference call meetings to draft a proposed definition of *semiconductor manufacturing equipment* for purposes of the valuation factor studies.

¹ Budget Change Proposal No. 6, *Valuation Factors – Biopharmaceutical and Hi-Tech Equipment* (2006-2007).

VI. Alternative 1 – Staff Recommendation

A. Description of Alternative 1

Staff recommends that the attached definition of *semiconductor manufacturing equipment* be adopted (Attachment A).

The proposed definition of *semiconductor manufacturing equipment* was developed by the Semiconductor Manufacturing Equipment Team and was disseminated to interested parties via Letter To Assessors 2007/007 on February 13, 2007. Interested parties were provided an opportunity to comment and/or make suggestions for revisions to the proposed definition.

One request was made from a manufacturer of semiconductor manufacturing equipment to have semiconductor manufacturing "demonstration" equipment included in the definition and the study. The Team reviewed the issue of "demonstration" equipment, and it was determined that it should not be included in the current study. Demonstration equipment will require a separate study to analyze additional data to determine if the equipment should be treated the same as equipment currently in use to manufacture chips on a daily basis.

B. Pros of Alternative 1

Adoption of the proposed definition of *semiconductor manufacturing equipment* will provide the Semiconductor Manufacturing Equipment Team with a definitive scope for the valuation factor studies. Additionally, when the resultant valuation factors are published by the Board, the definition will provide guidance to users by indicating the specific equipment that was part of the studies.

C. Cons of Alternative 1

None

D. Statutory or Regulatory Change for Alternative 1

None

E. Operational Impact of Alternative 1

None

F. Administrative Impact of Alternative 1

1. Cost Impact

Costs associated with the Valuation Factor Studies are provided for in Budget Change Proposal No. 6, *Valuation Factors – Biopharmaceutical and Hi-Tech Equipment* (2006-2007).

2. Revenue Impact

None

G. Taxpayer/Customer Impact of Alternative 1

None

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H. Critical Time Frames of Alternative 1

Adoption of a definition of *semiconductor manufacturing equipment* at the April 24, 2007 Property Tax Committee meeting will allow the Semiconductor Manufacturing Equipment Team to proceed with the value factors studies.

VII. Other Alternatives

Not applicable.

Prepared by: Property and Special Taxes Department, County-Assessed Properties Division

Current as of: March 16, 2007

DEFINITION OF SEMICONDUCTOR MANUFACTURING EQUIPMENT

Semiconductor manufacturing equipment consists of (1) manufacturing equipment used in a clean room for the fabrication of semiconductor chips, (2) test equipment used in the manufacturing and research and development environment and to test semiconductor manufacturing equipment, and (3) fixtures in place to support a semiconductor fabrication facility.¹

¹ This definition is not limited by the size of a semiconductor facility or the technology of the chips produced.