



STATE BOARD OF EQUALIZATION  
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January 10, 2001

TO INTERESTED PARTIES:

PROPOSED PROPERTY TAX RULE 305.3,  
APPLICATION FOR EQUALIZATION AFTER A MANDATORY AUDIT

Enclosed is a draft of proposed Property Tax Rule 305.3, *Application for Equalization After A Mandatory Audit*. This rule will clarify the equalization provisions following a mandatory audit pursuant to section 469 of the Revenue and Taxation Code.

The rule was discussed at the Property Tax Committee meeting on November 1, 2000. The Board Members gave staff direction on various issues and instructed staff to prepare and distribute a draft of the rule to interested parties. It is anticipated that the rule-writing process will proceed as follows:

- Interested parties will have an opportunity to provide staff with proposed changes to the draft of the rule. The deadline for interested parties to provide proposed changes, in the form of alternative text, on the enclosed draft is February 23, 2001.
- Staff will meet with interested parties on April 20, 2001 to discuss proposed changes to the draft of the rule. The purpose of the meeting is to reach as much agreement as possible among interested parties regarding the rule language.
- Any unresolved language issues will be heard by the Property Tax Committee at its meeting on May 30, 2001.

This letter and all future materials regarding this project will be posted to the Board's Web site under Property Tax Committee Work Plans ([www.boe.ca.gov/proptax.htm](http://www.boe.ca.gov/proptax.htm)). If you have any proposed changes to the enclosed draft of Rule 305.3, please submit them by February 23 to Ms. Sherrie Kinkle at [skinkle@boe.ca.gov](mailto:skinkle@boe.ca.gov), fax number (916) 323-8765.

Sincerely,

/s/ Richard C. Johnson

Richard C. Johnson  
Deputy Director  
Property Taxes Department

RCJ:sk  
Enclosure

1 **RULE 305.3. APPLICATION FOR EQUALIZATION AFTER A**  
2 **MANDATORY AUDIT**

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4  
5 *Reference:* Sections 23, 408, 469, 531, 531.8, 533, 534, 1603, 1605, Revenue and Taxation  
6 Code.

7 **(a) GENERAL.** If the result of a mandatory audit discloses property subject to an escape  
8 assessment for any year covered by the audit, then pursuant to section 1605 of the Revenue and  
9 Taxation Code the assessee may file an application for review, equalization, and adjustment of:

10 (1) The escape assessment, and

11 (2) The original assessment of all property of the assessee at the location of the profession,  
12 trade, or business for that year, except any property that has previously been equalized for the  
13 year in question.

14 **(b) DEFINITIONS.** For purposes of subsection (a) of this regulation:

15 (1) "Mandatory audit" means an audit of a taxpayer's books and records which an assessor is  
16 required to conduct at least once every four years as prescribed by regulation 192 of subchapter 2  
17 for a taxpayer engaged in a profession, trade, or business who owns, claims, possesses, or  
18 controls locally assessable business personal property and fixtures that have a value in excess of  
19 the amount set forth in section 469 of the Revenue and Taxation Code.

20  
21 (2) "Property subject to an escape assessment" means any individual item of the assessee's  
22 property that was underassessed or not assessed at all when the assessor made the original  
23 assessment of the assessee's property, regardless of whether the assessor actually makes or  
24 enrolls an escape assessment. For purposes of this regulation, property is subject to an escape  
25 assessment even if the audit results disclose an overassessment of another portion of the  
26 property, and the amount of the underassessment could be offset completely by the amount of  
27 overassessment.

28  
29 (3) "Result of a mandatory audit" means that information obtained and conclusions reached by  
30 the assessor during the mandatory audit process.

31 (4) "Original assessment" means the assessment and any subsequent roll corrections or roll  
32 changes for the roll year for which the result of the mandatory audit discloses property subject to  
33 an escape assessment.

34 (5) "All property of the assessee" means any property, real or personal, assessed to the assessee  
35 at the location of the profession, trade, or business for the year of the mandatory audit.

36 (6) "Location of the profession, trade, or business" means a distinct and separate location, as  
37 determined by the board, of the assessee's business personal property and fixtures that are the

1 subject of the mandatory audit. However, a location of the profession, trade, or business may  
2 include sites where the assessee's business personal property and fixtures are not located, when  
3 that site is part of the same appraisal unit as the business personal property and fixtures that are  
4 the subject of the mandatory audit. For purposes of this regulation, a "location of the profession,  
5 trade, or business" may include multiple parcels of real property, noncontiguous parcels, parcels  
6 with separate addresses, and parcels in separate assessment jurisdictions.  
7

8 Example 1: A business campus is composed of three separate buildings that have an  
9 interrelated purpose in the assessee's business operation. Each building has its own address and  
10 assessor's parcel number, is owned and operated by the same assessee, and the personal property  
11 and fixtures are reported as a single location. If an audit discloses personal property subject to an  
12 escape assessment at one building, then all property of the assessee at each building is eligible  
13 for equalization as they function and operate as one distinct location.  
14

15 Example 2: An assessee operates five grocery stores in a county. Although the stores are  
16 owned and operated by one assessee, carry the same type of merchandise, and share in common  
17 advertising, each store operates independently at a separate location. If property subject to an  
18 escape assessment is discovered only at one store, the property at that store's location is subject  
19 to equalization following an audit. The other four stores are distinct and separate locations and  
20 therefore are not considered property at the location of the profession, trade, or business where  
21 the escape assessment occurred.  
22

23 Example 3: An assessee operates a department store with a parking garage on an  
24 adjacent parcel. The parcel that houses the parking garage has no personal property or fixtures  
25 located on it. If an audit discloses personal property subject to an escape assessment for the  
26 department store, the parking garage would also be eligible for equalization if the board  
27 determines that the parcels with the garage and the store are part of the same appraisal unit as  
28 prescribed in subsection (b) of regulation 324 of this subchapter.  
29

30 (7) "Property that has been previously equalized for the year in question" means that, for any  
31 year covered by the mandatory audit, the board has previously made a final determination of full  
32 value for that item, category, or class of property that was the subject of an assessment appeal  
33 hearing or was the subject of a stipulated agreement approved by the board. An item, category,  
34 or class of property, or portion thereof, shall be deemed to have been the subject of a hearing or  
35 of a stipulated agreement only to the extent the board's decision or the stipulated agreement  
36 specifically identify the value of such item, category, or class, or portion thereof, as a value  
37 determined by the board hearing or stipulated agreement.

38 **(c) NOTICE OF MANDATORY AUDIT RESULTS.** Upon completion of an audit of the  
39 assessee's books and records, the assessor shall notify the assessee in writing of the results of the  
40 mandatory audit for all property, locations, and years that were the subject of the mandatory  
41 audit. The assessor shall give the taxpayer written findings with respect to any data that would  
42 alter any previously enrolled assessment. At the request of the assessee, the assessor shall permit  
43 the assessee or his or her designated representative to inspect or copy any information,

1 documents, or records relating to the audit in accordance with the provisions of Revenue and  
2 Taxation Code section 408.

3 **(d) NOTICE FOR FILING AN APPLICATION.** (1) An application shall be filed with the  
4 clerk no later than 60 days after the date on which the assessee is notified that the result of the  
5 mandatory audit has disclosed property subject to escape assessment. The notice for purposes of  
6 filing an application shall include the following:

7 (A) A notice of escape assessment as provided by Revenue and Taxation Code section  
8 534. If the county elects not to send such a notice, then the tax bill shall serve as notice.

9 (B) The tax bill, for counties of the first class or any county that has adopted a resolution  
10 pursuant to section 1605, subdivision (c), of the Revenue and Taxation Code.

11 (C) The assessor's written notification to the assessee of the results of the mandatory audit  
12 for all property, locations, and years that were the subject of the mandatory audit as described in  
13 subsection (c) of this regulation.

14 (2) Any notice or tax bill sent pursuant to (A), (B), and (C) of subsection (d)(1) of this  
15 regulation, that is intended to serve as notice for purposes of filing an application, shall clearly  
16 indicate that it is intended to serve such purpose and shall apprise the assessee of his or her right  
17 to file an application within 60 days of the mailing of the notice or tax bill.