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No. 2003/025

TO COUNTY ASSESSORS AND INTERESTED PARTIES:

LEGISLATIVE CHANGES AFFECTING MANUFACTURED HOMES

The Governor signed into law Senate Bill 2092 (Chapter 775 of the Statutes of 2002) which, in part, amends various sections of the Revenue and Taxation Code¹ relating to manufactured homes. These changes are effective as of January 1, 2003. Specifically, Chapter 775:

- Defines “land” in section 69.5 (Proposition 60/90/110 base year value transfer for persons over age 55 or disabled) to include a pro rata interest in a resident-owned mobilehome park.
- Extends the claim deadline to allow prospective relief under section 69.5 for resident-owned mobilehome parks recently reassessed for pro rata changes in ownership.
- Clarifies in section 5802 that supplemental assessments are not to be made for either (1) a conversion from the vehicle license fee to local property tax or (2) changes in ownership that occur between the conversion date and the ensuing lien date.
- Clarifies in section 5812 that supplemental assessments are to be made upon a change in ownership or completion of new construction.

“LAND” INCLUDES A PRO RATA SHARE IN A MOBILEHOME PARK

Section 69.5 provides that a person over age 55 or disabled may, subject to specified conditions and limitations, transfer the base year value of his or her primary residence to a newly acquired replacement residence. Subdivision (c) of section 69.5 sets forth the requirements for base year value transfers of manufactured homes and states that the relief may be available if the original property or the replacement dwelling, or both, includes a manufactured home or a manufactured home and any land owned by the claimant on which the manufactured home is situated.

Additionally, subdivision (g)(9) defines “claimant” as any person claiming the section 69.5 property tax relief. Subdivision (g)(11) provides that the term “person” means “any individual, but does not include any firm, partnership, association, corporation, company, or other legal entity or organization of any kind.” Certain persons own their manufactured homes as individuals, but the land on which the manufactured homes are situated is owned by a legal entity in which the individuals hold pro rata ownership interests. During the process of updating Assessors’ Handbook Section 511, *Assessment of Manufactured Homes and Parks*, the question arose as to the application of base year value transfers under section 69.5 in resident-owned

¹ All statutory references are to the Revenue and Taxation Code unless otherwise indicated.

parks when the park is held by a resident-owned entity. Board staff opined that when a taxpayer purchases a manufactured home subject to local property taxation and a space in a manufactured home park that is owned by a resident-owned entity, as a pro rata interest, only the manufactured home may receive the benefits of section 69.5 because the purchase of a share in a resident-owned entity would not constitute a purchase of land. Thus, the land on which the manufactured home is situated would be reassessed to current market value.

Chapter 775 amends section 69.5 to directly address this particular situation. For purposes of subdivision (c)(2), "land owned by the claimant" includes a pro rata interest in a resident-owned entity that owns a mobilehome park. Thus, after January 1, 2003, a person over age 55 or disabled can transfer the base year value of land as well as the improvement to and from manufactured homes in parks owned by resident-owned entities provided all the other qualifications of section 69.5 are met.²

CLAIM DEADLINE EXTENSION

Chapter 775 extends the claim deadline to allow prospective relief for resident-owned mobilehome parks recently reassessed for pro rata changes in ownership. Beginning January 1, 2002, resident-owned mobilehome parks were revalued to reflect any changes in ownership between January 1, 1989, and January 1, 2002, that were not previously reflected in the value of the mobilehome park (Assembly Bill 1457—Chapter 772, Statutes of 2001). Some mobilehome park tenants subject to this reassessment were precluded from receiving a base year value transfer, even though they were otherwise qualified, because the period to file a claim (three years from the date they purchased the replacement property) had expired.

Chapter 775 adds subparagraph (2) to section 69.5(k) to provide that in cases where an assessor corrects a base year value to reflect a pro rata change in ownership of a resident-owned mobilehome park, those claimants who purchased a manufactured home more than three years prior to the correction can file a claim within three years of the date of notice of the correction of the base year value to reflect the pro rata change in ownership. Claims for relief under these provisions may be filed after January 1, 2003.

Relief will be applied prospectively, commencing with the lien date of the assessment year in which the claim is filed. For claims filed in 2003, relief will apply as of January 1, 2003, for the 2003-04 fiscal year. There will be no refunds or cancellation of taxes levied prior to the date that the claim is filed.

Manufactured Home Allocation Issues

Questions have been asked regarding the allocation of base year value in transfers involving manufactured homes. Section 69.5 allows for the transfer of base year value from one appraisal unit to another; it does not distinguish between land and improvements. Thus, if a manufactured home is sold without the underlying land parcel and a single family residence is purchased, the entire base year value of the manufactured home should be transferred to the replacement

² This supersedes the Base Year Value Transfers Example 3 on page 23 of Assessors' Handbook section 511, Assessment of Manufactured Homes and Parks, November 2001 edition.

property (assuming all requirements of section 69.5 are met) and the value allocated based on the land-improvement ratio of the replacement property's full cash value.³ Likewise, if a single family residence is sold and a manufactured home is purchased without the underlying land parcel, the entire base year value of the single family residence, not just the improvement value, should be transferred to the manufactured home to the extent that it does not exceed the fair market value of the manufactured home and any miscellaneous improvements as of the date of purchase.⁴

If a single family residence is sold (land and improvements) and a manufactured home and land is purchased, the base year value may be reallocated based on the land-improvement ratio of the replacement property's full cash value. For example, a single family residence with a base year value of \$120,000 is sold for \$450,000. A claimant pays \$300,000 for a manufactured home and a pro rata interest in a resident-owned entity that owns the mobilehome park. The factored base year value should be reallocated because the factored base year value of the original property improvement exceeds the fair market value of the replacement property's manufactured home. The allocation of the factored base year value should be based on the land-improvement ratio of the replacement property's full cash value.

	Factored Base Year Value (FBYV)	Full cash value as of sale	Full cash value as of purchase	Ratio Land and Improvements to Total Property	Allocation of FBYV to replacement property
Original Property (house and lot)	\$ 47,500 L <u>\$142,500 I</u> \$190,000	\$450,000			
Replacement Dwelling (manufactured home and pro rata interest in park entity)			\$300,000 \$175,000 L \$125,000 I	.58 x \$190,000 .42 x \$190,000	\$190,000 = \$110,200 = \$79,800

SUPPLEMENTAL ASSESSMENTS

Subdivision (c) of section 5802 of the Revenue and Taxation Code provides that when a manufactured home is converted from vehicle license fee status to local property tax status, the base year value of the manufactured home shall be its full cash value on the first lien date following the conversion. Board staff has opined that when a manufactured home is converted from vehicle license fee status to local property tax status, the initial base year value is not subject to supplemental assessment. Some county assessors disagree with staff's position with respect to manufactured homes that change ownership immediately following the conversion. These assessors believe that the home becomes subject to county assessment jurisdiction at the time it is converted, reasoning that since the home was subject to local property tax as a result of the conversion, it is subject to supplemental assessment when it changes ownership.

Chapter 775 amends subdivision (c) to clarify that a manufactured home that has been converted is not subject to supplemental assessment pursuant to section 75.5 by reason of the conversion. Chapter 775 also adds new subdivision (d) to section 5802 to provide that if the manufactured

³ Letter To Assessors No. 87/71, dated September 11, 1987, question 15.

⁴ Annotation 200.0026 (C 1/28/2000).

home changes ownership between the conversion and the first lien date, the base year value will be established as of the date of the ownership change. However, that value will not be subject to supplemental assessment pursuant to section 75.5; instead, it will first be enrolled on the next lien date.

Once a manufactured home has been converted and enrolled, any change in ownership that occurs after the first lien date will be subject to supplemental assessment. Chapter 775 added subdivision (b) to section 5812 to clarify this.

Permanent Foundation

If a manufactured home is converted to local property tax roll status, sold, and placed on a permanent foundation before the first lien date, the permanent foundation and any miscellaneous land improvements are assessable new construction pursuant to section 70. Thus, a base year value should be established and a supplemental assessment issued for the completed new construction, but not for the manufactured home. The manufactured home will be added to the roll on the next lien date.

MISCELLANEOUS CHANGES

In addition to the changes described above, Chapter 775:

- Adds the Board's cost handbook (Assessors' Handbook Section 531, *Residential Building Costs*) as a recognized value guide and corrects the names of publications of commercially prepared value guides. § 5803
- Deletes obsolete provisions related to transfer to local property taxation due to vehicle license fee delinquency. § 5831
- Corrects code cross-reference errors. §§ 5811, 5813
- Substitutes the term "manufactured home" for "mobilehome" in various sections of the Property Tax Law, including the heading of Chapter 2.6 (commencing with section 172) of Part 1 of Division 1. §§ 62, 62.1, 172, 172.1, 181, 194, 197, 441, 480.4, 482

Enclosed is a copy of the applicable amended subdivisions of section 69.5 and sections 5802 and 5812 in strikeout and underline format. If you have further questions, please contact our Real Property Technical Services Unit at (916) 445-4982.

Sincerely,

/s/ David J. Gau

David J. Gau
Deputy Director
Property and Special Taxes Department

DJG:grs
Enclosure

Revenue and Taxation Code Section 69.5 as amended by Chapter 775, Statutes 2002:

...(c) The property tax relief provided by this section shall be available if the original property or the replacement dwelling, or both, of the claimant, includes, but is not limited to, either of the following:

...(2) A ~~mobilehome~~ manufactured home or a ~~mobilehome~~ manufactured home and any land owned by the claimant on which the ~~mobilehome~~ manufactured home is situated. For purposes of this paragraph, "land owned by the claimant" includes a pro rata interest in a resident-owned mobilehome park that is assessed pursuant to subdivision (b) of Section 62.1.

(A) If the ~~mobilehome~~ manufactured home or the ~~mobilehome~~ manufactured home and the land on which it is situated constitutes the claimant's original property, the assessor shall transfer to the claimant's replacement dwelling either the base year value of the ~~mobilehome~~ manufactured home or the base year value of the ~~mobilehome~~ manufactured home and the land on which it is situated, as appropriate. If the manufactured home dwelling that constitutes the original property of the claimant includes an interest in a resident-owned mobilehome park, the assessor shall transfer to the claimant's replacement dwelling the base year value of the claimant's manufactured home and his or her pro rata portion of the real property of the park. No transfer of base year value shall be made by the assessor of that portion of land that does not constitute a part of the original property, as provided in paragraph (4) of subdivision (g).

(B) If the ~~mobilehome~~ manufactured home or the ~~mobilehome~~ manufactured home and the land on which it is situated constitutes the claimant's replacement dwelling, the assessor shall transfer the base year value of the claimant's original property either to the ~~mobilehome~~ manufactured home or the ~~mobilehome~~ manufactured home and the land on which it is situated, as appropriate. If the manufactured home dwelling that constitutes the replacement dwelling of the claimant includes an interest in a resident-owned mobilehome park, the assessor shall transfer the base year value of the claimant's original property to the manufactured home of the claimant and his or her pro rata portion of the park. No transfer of base year value shall be made by the assessor to that portion of land that does not constitute a part of the replacement dwelling, as provided in paragraph (3) of subdivision (g).

This subdivision shall be subject to the limitations specified in subdivision (d).

(g) For purposes of this section:

...(3) "Replacement dwelling" means a building, structure, or other shelter constituting a place of abode, whether real property or personal property, that is owned and occupied by a claimant as his or her principal place of residence, and any land owned by the claimant on which the building, structure, or other shelter is situated. For purposes of this paragraph, land constituting a part of a replacement dwelling includes only that area of reasonable size that is used as a site for a residence, and "land owned by the claimant" includes land for which the claimant either holds a leasehold interest described in subdivision (c) of Section 61 or a land purchase contract. Each unit of a multiunit dwelling shall be considered a separate replacement dwelling. For purposes of this paragraph, "area of reasonable size that is used as a site for a residence" includes all land if any nonresidential uses of the property are only incidental to the use of the property as a residential site. For purposes of this paragraph, "land owned by the claimant" includes an ownership interest in a resident-owned mobilehome park that is assessed pursuant to subdivision (b) of Section 62.1.

Chapter 775, Statutes of 2002

(4) "Original property" means a building, structure, or other shelter constituting a place of abode, whether real property or personal property, that is owned and occupied by a claimant as his or her principal place of residence, and any land owned by the claimant on which the building, structure, or other shelter is situated. For purposes of this paragraph, land constituting a part of original property includes only that area of reasonable size that is used as a site for a residence, and "land owned by the claimant" includes land for which the claimant either holds a leasehold interest described in subdivision (c) of Section 61 or a land purchase contract. Each unit of a multiunit dwelling shall be considered a separate original property. For purposes of this paragraph, "area of reasonable size that is used as a site for a residence" includes all land if any nonresidential uses of the property are only incidental to the use of the property as a residential site. For purposes of this paragraph, "land owned by the claimant" includes an ownership interest in a resident-owned mobilehome park that is assessed pursuant to subdivision (b) of Section 62.1.

(k) (1) In the case in which a county adopts an ordinance pursuant to paragraph (2) of subdivision (a) that establishes an applicable date which is more than three years prior to the date of adoption of the ordinance, those potential claimants who purchased or constructed replacement dwellings more than three years prior to the date of adoption of the ordinance and who would, therefore, be precluded from filing a timely claim, shall be deemed to have timely filed a claim if the claim is filed within three years after the date that the ordinance is adopted. This paragraph may not be construed as a waiver of any other requirement of this section.

(2) In the case in which a county assessor corrects a base year value to reflect a pro rata change in ownership of a resident-owned mobilehome park that occurred between January 1, 1989, and January 1, 2002, pursuant to paragraph (4) of subdivision (b) of Section 62.1, those claimants who purchased or constructed replacement dwellings more than three years prior to the correction and who would, therefore, be precluded from filing a timely claim, shall be deemed to have timely filed a claim if the claim is filed within three years of the date of notice of the correction of the base year value to reflect the pro rata change in ownership. This paragraph may not be construed as a waiver of any other requirement of this section.

(3) This subdivision does not apply to a claimant who has transferred his or her replacement dwelling prior to filing a claim.

(4) The property tax relief provided by this section, but filed under this subdivision, shall apply prospectively only, commencing with the lien date of the assessment year in which the claim is filed. There shall be no refund or cancellation of taxes prior to the date that the claim is filed. ...

Revenue and Taxation Code Section 5802 as amended by Chapter 775, Statutes 2002:

5802. (a) Except as provided in subdivisions (b)~~and~~, (c) , and (d), "base year value" as used in this part means the full cash value of a manufactured home on the date the manufactured home is purchased or changes ownership. If the manufactured home undergoes any new construction after it is purchased or changes ownership, the base year value of the new construction is its full cash value on the date on which the new construction is completed, and if uncompleted, on the lien date.

(b) The base year value of a manufactured home for which the license fee is delinquent shall be its full cash value on the lien date for the fiscal year in which it is first enrolled.

Chapter 775, Statutes of 2002

(c) The base year value of a manufactured home converted pursuant to Section 18119 of the Health and Safety Code from taxation under Part 5 (commencing with Section 10701) of Division 2 to taxation under this part shall be its full cash value on the lien date for the fiscal year in which that manufactured home is first enrolled. A manufactured home that has been converted is not subject to supplemental assessment pursuant to Section 75.5 by reason of the conversion.

(d) The base year value of a manufactured home that changes ownership in the same calendar year after a conversion in the same calendar year, shall be its full cash value on the date of the change in ownership and its value shall be enrolled on the next lien date. The change in ownership is not subject to supplemental assessment as provided in Section 75.5.

(e) This section shall become operative on January 1, 1999.

Revenue and Taxation Code Section 5812 as amended by Chapter 775, Statutes of 2002:

5812. (a) The base year value of a manufactured home which is purchased or which changed ownership shall be entered on the roll for the lien date next succeeding the date of the purchase or change in ownership. The value of any new construction shall be entered on the roll for the lien date next succeeding the date of completion of the new construction. The value of new construction in progress on the lien date shall be entered on the roll as of the lien date.

(b) Except as provided in subdivisions (c) and (d) of Section 5802, a manufactured home that has changed ownership or had new construction completed is subject to supplemental assessment as provided in Section 75.5.