



(916) 445-8900

February 25, 1980

Mr. Lawrence M. Nichols  
Tulare County Assessor  
Room 102 E. Courthouse  
Visalia, CA 93277

Attention: Mr. H. D. McAuliffe  
Auditor-Appraiser

Dear Mr. McAuliffe:

Inventory Penalties

Your letter of December 17, 1979, asks several questions regarding the application of penalties to the assessment of inventories under audit conditions. After conferring with Bud Florence of our Assessment Standards Division, I would submit the following answers:

- I. (a) Revenue and Taxation Code, section 219 allows the exemption for escaped inventory enrolled under section 531 provided that it should not be properly enrolled under the other specific sections that disallow the exemption. I am advised that the auditor of the State Controller will spot check proper enrollment when auditing amounts of state subvention.
  - (b) Revenue and Taxation Code, section 531 should not be used for wilful evasion of personal property taxation. Escapes of that nature should be enrolled under section 502.
  - (c) If a section 463 and a section 504 penalty are to be applied, then enrollment should be under section 502 and the penalties will apply to the net amount after allowance for the business inventory exemption.
- II. A taxpayer with over \$30,000 inventory wilfully underreports feed and does not report feed stored at another location.
1. The section 504 penalty would only apply to the amount of feed that escaped and enrollment should be under section 531.4 for the reported location.

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2. The feed stored at the second location should be handled as example No. I(c), above. The section 504 penalty would apply based on your facts.
3. No business inventory exemption is allowed under section 531.4, but the second location calls for penalties on the net amount.

III. A taxpayer with over \$30,000 inventory at each of two locations receives and files a statement for only one of the locations.

- (a) The escaped property at the second location should be enrolled under section 531 with the 10% penalty.
- (b) No enrollment for the second location under section 531.4 because no report was made for this property.
- (c) If further investigation indicates that the taxpayer wilfully failed to disclose the second location, the procedure in I(a), above, should be used.

In your handling of escapes of this type, please bear in mind the filing requirements by location as per the property statement. Then, you should apply the various sections in accord with the explicit language since that is our understanding of the legislative intent.

Very truly yours,

James M. Williams  
Tax Counsel

JMW:fr  
3501D

bc: Mr. Gordon P. Adelman  
Mr. Robert H. Gustafson  
Mr. Verne Walton  
Mr. Bud Florence