

Name: _____

County: _____

Date: _____

PERSONAL PROPERTY VALUATION AND AUDIT
SELF-STUDY TRAINING SESSION

REVIEW QUESTIONS

1. Personal property leased on the lien date is assessable unless exempt. Personal property held for lease on the lien date is inventory.
 True
 False

2. Which of the following is true regarding assessability of leased equipment or property intended for lease?
 Property is assessable if it has been used by the owner prior to the lien date, even though "held for lease" on the lien date.
 Property actually leased or rented on the lien date is assessable.
 Property is assessable if it is intended to be used by the lessor after being leased (or during intervals between leases), even though "held for lease" on the lien date.
 Property is assessable if it is being used by the owner for purposes not directly associated with the prospective sale or lease of that property.
 All of the above

3. Under section 405, the assessor must assess leased property to the lessee whether or not there is a private agreement between the parties to the lease.
 True
 False

4. Property under a true lease is usually assessed only to the _____ and property under conditional sales contract only to the _____.

5. Which of the following is not true regarding property tax exemption?
- Tangible personal property owned by banks and financial corporations (commonly referred to as financial institution or financials) is exempt from property taxation by the in-lieu tax provisions.
 - The in-lieu exemption does not apply to banks and financial corporations whose principal activities consist of leasing tangible personal property.
 - Personal property leased to an exempt bank or financial is not assessable to the owner/lessor.
 - Personal property owned by insurance companies is exempt from property taxation.
6. Several factors have been identified by the court(s) under the *essential indicia of ownership* test as evidence that the government holds title. Which of the following statements is true when the government is a lessee? Mark all that apply.
- Title automatically passes to the government at the start of the lease term.
 - The property is used as security for any unpaid lease payments.
 - The government has full authority to alter the property at will.
 - The government is required to maintain the property.
 - All of the above.
7. Who is the assessee in the following situations? Fill in the blanks.

| LESSOR | LESSEE | OWNER (TITLE WITH) | TYPE OF PROPERTY | ASSESSEE? |
|---------------|---------------|--------------------|---------------------------------------|-----------|
| Private Party | Government | Lessor | Personal Property | |
| Private Party | Government | Lessee | Personal Property | |
| Private Party | Government | Lessee | Fixtures (and other real property) | |
| Government | Private Party | Lessor | Personal Property | |
| Government | Private Party | Lessor | Fixtures (and other real property) | |
| Government | Private party | Lessee | Fixtures (and other real property) | |

8. An extended-term lease is defined as any lease whose duration is more than _____ or for an unspecified period.
9. Under an extended-term leases, the _____ is considered to be the consumer of the property. In a short-term leases or rental, the _____ is considered to be the owner of the property.
10. An agreement under which an owner gives up possession and use of his/her property for valuable consideration and for a definite term and at the end of the term, the owner has the absolute right to retake, control, or convey the property is called _____ .
11. Which of the following statements is not true for a conditional sales contract?
- Lease is for a fixed period with a nominal option payment (i.e., \$1) required transferring title.
 - Lease is cancelable on a monthly or annual basis.
 - Present value of contractual rental payments is equal to or greater than the current purchase price.
 - The contract transfers all ownership responsibility, with the exception of title to the lessee.
12. The cost approach is not an appropriate approach to value supplies or construction-in-process.
- True
 - False
13. _____ are items used in the ordinary course of business but not incorporated into the product sold or held for lease. _____ are products held for sale or lease which include items incorporated into the product or transferred with the product when sold.
14. If the price of computer equipment is not segregated, or not able to be segregated, between taxable and nontaxable property and programs, the total purchase price may be used as an indicator of taxable value.
- True
 - False

15. Reverse trending is a method of recognizing and removing from the final valuation conclusion assets that are still recorded on an assessee's books, but no longer exist, and have been replaced. Complete each statement by matching it with the appropriate phrase; each number may only be used once.

| | |
|---|---------------------------------------|
| 1 | books and records, and reported costs |
| 2 | total cost(s) |
| 3 | new replacements |
| 4 | original asset(s) |
| 5 | replacement cost(s) |
| 6 | price index factor(s) |

| | |
|--|---|
| | Verify that the _____ appear to lack periodic updating for disposed assets. |
| | Verify that costs of _____ have actually been reported. |
| | Determine year _____ were acquired. |
| | Find appropriate _____ for the original asset's acquisition years. |
| | Divide the new _____ by the price index factor(s). |
| | Subtract the cost(s) determined in step 5 from the _____ reported for the original assets' acquisition years. |

16. Vehicles exempt from DMV registration and license fee are subject to assessment by the assessor. They are considered _____ or _____ and are specifically exempted from DMV registration under Vehicle Code section 4000-4020.

17. Equipment that is permanently attached to a licensed vehicle is not subject to local property taxation because it is considered part of the vehicle.

- True
 False

18. Which of the following statements is not true?

- Oak barrels not used in the manufacturing process but held for sale in the ordinary course of business are considered business inventory.
- Racehorses are not taxable as personal property.
- Taxable animals include those used in riding stables, pack station operations, or rodeos, stallions or broodmares held for breeding, and registered or show horses even when located on premises which belong to a person other than the property owner.
- Animals involved in production of food and fiber, such as dairy cattle and bulls, beef cattle and bulls, draft animals, swine, sheep, and poultry, and animals held for sale or lease on the lien date are exempt from taxation as inventory.

19. Possessory interest is applicable to real property, including property that was formerly personal property but is now classified as fixtures. The value of the taxable possessory interest is based on the value of the right to possess or use publicly owned real property.

True

False

20. Match the following definitions.

| | |
|---|---------------------|
| 1 | True Lease |
| 2 | Extended-term lease |
| 3 | Chapter 11 |
| 4 | Chapter 7 |
| 5 | Chapter 13 |
| 6 | Supplies |

| | |
|--|--|
| | Any lease whose duration is more than six months or for an unspecified period. |
| | Items used in the ordinary course of business but not incorporated into the product sold or held for lease. |
| | Allows a reorganization of a business to promote and facilitate rehabilitation or restructuring its finances in order to continue operations and avoid liquidation. |
| | A complete cessation of business and almost complete liquidation of assets of the petitioner to provide for the satisfaction of creditor claims. |
| | Allows individual debtors the opportunity to develop a new repayment program for financial obligations. |
| | Agreement under which an owner gives up possession and use of his/her property for valuable consideration and for a definite term and at the end of the term, the owner has the absolute right to retake, control, or convey the property. |

21. Which of the following is true regarding property statements? Mark all that apply.

Property statements are declarations of assessable property signed under penalty of perjury.

The property statement must show all information as of 12:01 a.m. on March 1.

The property statement must include all taxable property owned, claimed, possessed, controlled, or managed by the person filing it and required to be reported.

The property statement must include the situs of the property.

All of the above.

22. Section 441(a) requires that every person who owns taxable personal property (other than a manufactured home) in the county must file a property statement if the cost of the property is more than:

- \$100,000
- \$300,000
- \$500,000
- \$1,000,000

23. An assessee is subject to a penalty for failure to file a property statement timely. The penalty is:

- 1 percent
- 5 percent
- 10 percent
- 15 percent

24. Which of the following is not true of property transfers?

- If a business or property transfer is processed through escrow, a statement of bulk sale or tax clearance from the county tax collector may be required.
- Property transfer information is received by the county either from the seller or from the escrow company. There will be no other source to get this information.
- If a sale does not go through escrow, information regarding the sale may be provided by the seller to prevent future tax liability.

25. Match the following definitions:

| | | |
|--|--|-----------------|
| | A technique that involves physically viewing every business location. | a. Field Canvas |
| | A visit to only those where information or partial information is already available. | b. Field Check |

26. Forms 600-B and 600-R sent from the Board of Equalization, include lists of _____ leased by state-assessed companies that should be _____ assessed.

27. Which one of the following is not a source of information to assessors for discovering a new business? Mark all that apply.
- Building permits
 - Opening a new bank account
 - Certificates of occupancy
 - Documents filed with the Secretary of State
28. Pursuant to section 441, which of the following statements is not true regarding the requirements of filing property statements?
- Each person owning taxable personal property having an aggregate cost of \$100,000 or more for any assessment year shall file a signed property statement with the assessor.
 - Failure of the assessor to request or secure the property statement does not render any assessment invalid.
 - If the assessee does not file the property statement by May 7, the assessor has no other way to find the value and cannot assess the assessee for that year.
 - Every person owning personal property that is not required by statute to file a property statement shall, upon request of the assessor, file a signed property statement.
29. When a property statement is filed timely in duplicate, the assessee may request that the assessor provide the full value computed by the assessor for each category. The assessor does not have any obligation to comply.
- True
 - False
30. Which of the following accounts are not appropriate for direct billing? Mark all that apply.
- Old Businesses having tangible personal property costing less than \$100,000.
 - Old businesses having tangible personal property costing more than \$100,000.
 - New businesses having tangible personal property costing less than \$100,000.
 - New businesses having tangible personal property costing more than \$100,000.

31. Which of the following is required for a valid assessment?
- The property must be assessed in the appropriate county, city, and district.
 - The assessee is required to report the physical address of the property or the assessor's parcel number on which it is located.
 - The property statement shall show all taxable property owned, claimed, possessed, controlled, or managed by the person filing it.
 - All of the above
32. A property statement that is unsigned, or signed by an unauthorized agent, does not constitute a valid filing. Such a statement is incomplete and invalid and should be returned to the assessee.
- True
 - False
33. Which of the following is a source that may be used to discover vessels located in a county on the lien date?
- Records from the DMV, marinas, and other types of the boat storage facilities.
 - Certificates of documentation.
 - Referrals from other counties.
 - Field canvassing.
 - All of the above
34. The lien date regarding the assessment of racehorses is the same as other types of personal property, January 1. However, unlike other types of property, the tax becomes delinquent at 5:00 p.m., February 15, of the same calendar year.
- True
 - False

35. Which of the following statements describe the standards of field work for an auditor?
- The work should be adequately planned and supervised.
 - There should be a proper evaluation of existing internal controls as a basis for reliance.
 - Sufficient competent evidential matter should be obtained through inspection, observation, inquiry, and confirmation to afford a reasonable basis for an opinion regarding the financial statements under examination.
 - All of the above.
36. An in-dept audit is not always required for each year in the four-year period. The auditor is allowed to "sample" one year in a four-year period. If no material discrepancy or irregularity is found, the auditor cannot audit the remaining years.
- True
 - False
37. The assessor is not prohibited from auditing any assessee during any period allowed under the statue of limitations. The assessor may audit a taxpayer every year if it is necessary.
- True
 - False
38. In most cases, audits must be completed within _____ years after July 1 of the assessment year the property escaped assessment, because roll changes resulting from audits are subject to the statue of limitations pursuant to section 532.
39. Property owned by an exempt organization is assessable, even though there may not be a net taxable value.
- True
 - False
40. _____ is the program whereby the assessor's staff in the county where an assessee is headquartered gathers information for the audit for all participating counties.

41. Which of the following is not one of the basic records that should be available to an auditor on the audit date?
- Independent audit report
 - Financial statements
 - Bank account statements
 - Sales tax audit records
 - Articles of incorporation and amendments
42. What are the three main tasks that an auditor should accomplish at the audit appointment?
- a. Gather _____ regarding the company.
 - b. Review records pertaining to the _____ of the property.
 - c. Take a _____ of the facility and equipment being audited.
43. The _____ system of accounting gives recognition to income items during the fiscal period in which they were earned although the cash may not have been received. Expenses are recorded when incurred even though the actual payment has not been made.
44. Which one of the following questions pertains to a company's system of internal control?
- How are scrapped or sold assets treated?
 - Are all the assets in the county on the lien date?
 - Are sound accounting practices followed by quality personnel?
 - What is the minimum value for capitalizing assets?
45. Where can the full economic property costs and years of acquisitions for machinery and equipment can be found? Mark all that apply.
- The internal control or EDP (electronic data processing) ledgers.
 - The general ledger fixed asset account or subsidiary ledgers
 - The depreciation schedules or fixed asset listing.
 - The fixed asset reconciliation tables or the depreciation reconciliation tables.
46. Sampling to confirm accuracy enables an auditor to verify correctness of the acquisition date as recorded on the asset listing or accounting records.
- True
 - False

47. The audit of supplies consists primarily of ensuring that supplies on hand on the lien date have been properly reported, which means that:
- Assessable supply items were included and machinery and equipment were excluded.
 - Exempt inventory items were included and assessable supply items were excluded.
 - Exempt inventory items were excluded and assessable supply items were included.
 - Depreciating assets were included and machinery and equipment were excluded.
48. Which of the following is not a principal source of obtaining information for leased equipment?
- Lease and rental expense accounts, accounts payable, and notes payable
 - Lease contracts
 - Accounts receivable and notes receivable
 - Discussion with the assessee and/or physical inspection of the premises
49. Which of the following items may aid the auditor in the discovery and assessment of loaned equipment?
- Memorandum entries
 - Contract or other written agreement(s) between the owner and the possessor
 - Royalty payments for items produced on loaned equipment
 - Capitalized installation charges
 - All of the above
50. Property owned by the government and used by a taxable entity may be subject to a possessory interest assessment only, but the property remains an item under audit.
- True
 - False
51. Only fixtures and other real property, owned by the government but possessed by a taxable entity, are subject to assessment. With one exception, possessory interests in personal property are not taxable.
- True
 - False

52. A total property audit involves the verification of considerably more information than a typical audit that focuses primarily on equipment and supplies. What records does the auditor need to focus on for a total property audit? Mark all that apply.

- Market studies and forecast.
- Construction contracts.
- Profit and loss statements.
- Tenant improvements.
- Production data.
- Lease agreements.
- Plot plan.
- Plant utilization.
- All of the above.

53. Which of the following must be verified by an auditor when auditing leasing companies? Mark all that apply.

- That all equipment owned by the company located in the county has been reported.
- That the correct location of the equipment has been furnished on the property statement.
- That the correct cost and sales information has been reported by the lessor.
- That the costs reported correspond with the appropriate level of trade at which the equipment is situated on the lien date.

54. Which of the following items may be required to gather the necessary information for an audit of a leasing company? Mark all that apply.

- Lease contracts
- Audit referrals
- Retail price lists
- Profit and loss statements
- Control records

55. Which of the following is included in the total cost of replacement or reproduction of new leased equipment? Mark all that apply.

- Sales or use tax
- Minor repair costs
- Machinery foundation costs
- Freight
- Trade level adjustment where applicable

56. One of the benefits of taking a tour of a property being audited (appraised) is that it confirms the correct classification of the property.

- True
- False

57. The audited value is compared to the original assessed (enrolled) value. The difference determines the _____ and the _____
_____ or _____ for that year.

58. Minimum contents of an audit should include:

- a. _____
- b. _____
- c. _____
- d. _____

- e. _____

59. Audit findings should include: Mark all that apply.
- An explanation of differences found.
 - Problems identified
 - Net results, if any
 - All of the above
60. If any item was underassessed or not assessed, the audit findings must disclose that escape unless it is offset by an overassessment of other property.
- True
 - False
61. Property is subject to an escape assessment even if the audit discloses an overassessment of another portion of an item of the property, and the amount of the underassessment could be offset completely by the amount of overassessment, and may be challenged by an assessee only after the escape assessment has been enrolled.
- True
 - False
62. Where an escape assessment applies, how many days prior to entry on the roll must the *Notice of Proposed Escape Assessment* be sent?
- 10
 - 15
 - 30
 - 45
63. After having considered the results of the audit, including discussions with and written comments of the taxpayers, the assessor shall inform the taxpayer of the conclusions as to the value of the property and may: Mark all that apply.
- Cause an escape assessment to be made.
 - Make an assessment subject to penalty.
 - Inform the taxpayer of his/her right to a cancellation of the assessment or a refund of taxes.

64. The law requires that the auditor-appraiser explain the audit findings and conclusions to the assessee and/or his or her agent.
- True
- False
65. With respect to the Property Tax Rule 305.3, "site" is defined as the location of the _____, trade, or _____. Site also includes other property not within the same _____ as the property that is subject to escape assessment.
66. In situations where an audit discloses property subject to an escape assessment, the assessee can only file an assessment appeal (on the original assessment of all property of the assessee at the location) for: Mark all that apply.
- The year that the property escaped assessment.
- All years covered in the audit period.
- All years covered in the audit period if property escaped assessment in all years.
- All of the above.
67. If the results of an audit disclose property subject to an escape assessment, an application must be filed with the clerk of the board within _____ days of the date the notice is mailed to the assessee.
68. The mailing date of the escape assessment notice is the date printed on the notice or the postmark on the notice, whichever is earlier.
- True
- False
69. If an escape assessment is enrolled by counties of the _____ or counties that have _____, the notice for assessment appeal purposes is the tax bill.
70. An _____ is an assessment made after the completion of the regular assessment roll, as an addition to that roll, regardless of the reason.
71. The _____ is complete after the assessor has certified the completion of the local roll prepared pursuant to section 601.

72. The assessor is required to make an escape assessment if:
- The assessee does not file a property statement and the result is no assessment.
 - The assessor discovers an underassessment of property.
 - The assessor discovers that an exemption was granted in error.
 - All of the above.
73. In which of the following circumstances is it appropriate to apply penalties and interest for an escape assessment? Mark all that apply.
- The assessee reports costs lower than actual costs due to an unintentional mistake.
 - The assessee reports costs lower than actual costs due to willful misreporting.
 - The assessee reports costs higher than actual costs due to willful misreporting.
 - The assessee reports costs higher than actual costs due to an unintentional mistake.
 - All of the above.
74. The date of enrollment is best described as:
- The date the interest computation starts.
 - The date the interest computation stops.
 - The date the interest computation is suspended for an appeal.
 - None of the above.
75. Which of the following statements regarding escape assessments is true? Mark all that apply.
- An escape assessment must be applied if a property statement is not filed.
 - An escape assessment may be applied if a property statement is not filed timely.
 - An escape assessment penalty may be abated by the county board of equalization.
 - All of the above.
76. If a property statement is not filed or was not filed timely in accordance with sections 441 and 463, what penalty must be applied to the assessed value?
- 5 percent
 - 10 percent
 - 15 percent
 - 25 percent

77. What penalty may be applied if the assessor discovers that the assessee or agent willfully concealed information?
- 5 percent
 - 10 percent
 - 15 percent
 - 25 percent
78. After an escape assessment is enrolled, section 534 requires that the assessor mail a Board-prescribed notice to the assessee to notify the assessee that the escape assessment was enrolled.
- True
 - False
79. If, before the expiration of a period for making an escape assessment, the taxpayer and the assessor agree in writing to extend the time for making the assessment, correction, or claim for refund, the assessment may be made at any time prior to the expiration of the period agreed upon.
- True
 - False
80. Which of the following must be included in the *Notice of Proposed Escape Assessment*? Mark all that apply.
- The amount of any escape assessment as estimated by the assessor.
 - A name and telephone number of a person at the assessor's office who is knowledgeable with respect to the proposed escape assessment and to whom the assessee can voice any concerns.
 - A prominent heading stating the statutory title of the notice.
 - The date the escape assessment will be enrolled by the assessor.
 - All of the above

81. Which of the following statements is not true? Mark all that apply.
- Errors and omissions not involving the assessor's value judgment must be corrected within four years after making the original assessment.
 - A roll correction is necessary only if it is caused by the assessor and the error resulted in an increase to the original entry on the roll.
 - A roll correction is necessary if a clerical error is caused by the assessor or another county official, whether the error resulted in an increase or a decrease to the original entry on the roll.
 - A roll correction is necessary if a clerical error is caused by an assessee based on a defect of description or other information discovered upon an audit, and the error resulted in an assessment at a higher valuation than would have otherwise been entered on the roll.
82. Which of the following statements are true regarding the difference between roll corrections and escape assessments? Mark all that apply.
- No penalties are involved with roll corrections.
 - An escape assessment may result by an assessee's failure to report information.
 - Roll corrections are limited to clerical errors only, and cannot be made for errors or omissions involving the exercise of value judgment.
 - Roll corrections cannot result in a refund or payment of interest to an assessee.
 - All of the above
83. Roll corrections, base year value corrections, and escape assessments are all subject to penalties if certain conditions apply.
- True
 - False
84. Roll corrections and base year value corrections are identical.
- True
 - False

85. Match the following statutes to the appropriate description of its provisions.

| | |
|---|---------------|
| 1 | Section 506 |
| 2 | Section 531.1 |
| 3 | Section 531.5 |
| 4 | Section 51.5 |
| 5 | Section 532.1 |
| 6 | Section 531.8 |

| | |
|--|---|
| | Requires a 10-day notice to the taxpayer prior to enrollment of an escape assessment. |
| | Requires an escape assessment due to the application of an incorrect business inventory exemption. |
| | Provides that the tax rate is the rate of the year of escape. |
| | Extends the time period for making an escape assessment, correction, or claim for refund. |
| | Provides that an escape assessment shall be enrolled if it is discovered that an exemption was incorrectly allowed. |
| | Provides the authority to correct base year values. |

86. The primary purpose of the Morgan Property Taxpayers' Bill of Rights is to promote the fair administration of the property tax in regard to the rights and duties of taxpayers.

- True
 False

87. The Property Taxpayers' Rights Advocate is appointed by the:

- The Governor.
 The California Assessors' Association Executive Committee.
 The State Board of Equalization in consultation with the California Assessors' Association.
 The State Board of Equalization.

88. Based on sections 408-408.3, both the public at large and assessees have the right to inspect specific types of information in the assessors' records. Which of the following records must be disclosed to the public? Mark all that apply.

- The assessment roll and its index.
- Owner's maps and assessors' maps.
- Property characteristic information.
- Claims for exemption (except homeowner's).
- All of the above.

89. Under section 408(e), the assessor must permit an assessee or his/her representative to inspect or copy all information, documents, records, and audit narrative relative to the assessee's property.

- True
- False

90. Pursuant to section 469, which of the following statements is true upon completion of an audit? Mark all that apply.

- The assessee must be provided the assessor's findings in writing with respect to data that would alter any previously enrolled assessment.
- The assessor must provide information under section 469 only upon written request by the assessee or his/her representative.
- The assessor must advise the assessee if the audit discloses that any property was subject to an escape assessment.
- All of the above.

91. What are an assessee's two options after enrollment of an assessment if he/she decides to protest the property tax assessment?

92. When an application for assessment appeal is filed timely regarding an escape assessment resulting from an audit, all property owned for the year of escape by an assessee at the location is open to appeal, including the real property on which the personal property is located.

- True
- False