

AUDIT PROGRAM AUTHORITATIVE CITATIONS

The following provides the authoritative citations for the Audit Program Survey Topic. In general, citations include Constitutional provisions, sections of the Revenue and Taxation Code, other applicable statutes, court cases, Property Tax Rules, *Assessors' Handbook Sections*, Letters To Assessors, and legal annotations pertaining to the topic.

CITATION	DESCRIPTION
Revenue and Taxation Code	
§408(e)(1)	The assessor shall, upon request, permit the assessee or assessee's designated representative to inspect or copy all documents, including but not limited to audit narratives and work papers, relative to the appraisal and assessment of the assessee's property.
§441(d)	If requested to do so by the assessor, for assessment purposes, every person shall make available information or records of his or her property or any other personal property located on the premises or any other personal property located on the premises of property he or she owns or controls. Authorizes audit of any assessee of property taxes.
§454	The assessor may subpoena and examine a person regarding any statement furnished him, or any statement disclosing property stored, possessed, or controlled by that person in the assessor's county.
§462	A person who refuses to make information available as required by section 441(d) is guilty of a misdemeanor.
§463	A penalty, 10 percent of assessed value, is applied when a property statement is not filed in accordance with filing requirements and deadlines as identified in sections 441 and 463, respectively. The penalty may be applied to the regular roll, or applied to additions made to the roll after originally completed and published. It may only be abated by the county board of equalization or assessment appeals board.
§468	If a person fails to furnish requested information, the assessor has the power to subpoena that information. The court may so order in any county where the person may be found, but shall not require the person to appear before the court in any other county than that in which the subpoena is served.
§469	The assessor shall conduct a "significant number" of audits each year (75% of the 2002 – 2005 fiscal year average of mandatory accounts). One-half must be drawn from a pool of the largest accounts (the pool to equal 50% of 75% of the fiscal year average for 2002 -2005). These accounts must be audited every four years for so long as they qualify based on size. The other ½ of accounts to be audited shall be selected in a fair and equitable manner.
§470	A taxpayer, shall make records available, upon assessor's request, at his or her principal place of business (whether inside of or outside of California) or at a mutually agreeable place. An out-of-state taxpayer may elect to pay the assessor's travel expenses in lieu of bringing the records to California.
§501	If after written request by the assessor, any person fails to provide information per §441 and/or §470 , the assessor must estimate the value and promptly assess the property.

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§502	If any person willfully conceals, fails to disclose, removes, transfers or misrepresents tangible personal property to evade taxation which results in an assessment lower than that which would otherwise be required by law, the assessor shall assess the property impose the penalty provided for in Section 504.
§503	If a fraudulent act or omission causes any taxable tangible property to escape assessment in whole or in part, the assessor shall assess the property and add a penalty of 75 percent of the additional assessed value.
§504	There shall be added to any assessment made pursuant to Section 502, except those assessments as are placed on the current roll prior to the time it is originally completed and published, a penalty of 25 percent of the additional assessed value so assessed.
§506	Provides for adding interest at the rate of $\frac{3}{4}$ of 1 percent per month, calculated from the date the taxes would have become delinquent if timely assessed until the date of enrollment. But, there must have been a requirement to file a property statement (cost over the amount specified in section 441 or the assessor demanded a statement) or a specific code section requires interest to be added.
§531	Property is deemed to have escaped assessment under this section when its owner fails to file a property statement per section 441 resulting in no assessment or an underassessment. No willful or fraudulent act is involved. Escape assessments made as the result of an owner's failure to file a property shall be subject to the penalty and interest imposed by Sections 463 and 506, respectively.
§531.3	If the assessee omits to report the cost of the property accurately, that results with a lower valuation, the portion of the property as to which the cost is unreported, in whole or in part, shall be assessed. If the omission is willful or fraudulent, the penalty and interest provided in Sections 504 and 506 shall be added to the additional assessment; otherwise only the interest provided in Section 506 shall be so added.
§531.4	When an assessee fails to report any taxable tangible property accurately on a property statement, regardless of whether this information is available to the assessee, to the extent that this failure causes the assessor not to assess the property or to assess it at a lower valuation, that portion of the property which is not reported accurately, shall be assessed. If the failure to report the property accurately is willful or fraudulent, the penalty and interest provided in Sections 504 and 506 shall be added to the additional assessment; otherwise only the interest provided in Section 506 shall be added.

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§531.5	If a business inventories exemption has been incorrectly allowed because of erroneous or incorrect information submitted by the taxpayer, an escape assessment in the amount of the exemption shall be made on discovery of the error. Interest shall be added to the assessment in the amount and manner provided by Section 506. If the exemption was incorrectly allowed because of erroneous or incorrect information submitted by the taxpayer with knowledge that such information was erroneous or incorrect, the penalty provided in Section 504 shall be added to the assessment.
§531.8	Requires that the assessor notify the assessee at least ten days prior to entering the value on the roll. The following information must be included on the notice: <ul style="list-style-type: none"> • The amount of the proposed escape assessment for each year at issue; • The name and phone number of a person at the assessor's office with whom the assessee can discuss the assessment and; • The following heading "NOTICE OF PROPOSED ESCAPE ASSESSMENT" prominently displayed.
§531.9	A county board of supervisors may, by ordinance, prohibit an assessor from making escape assessments of appraisal units where the amount of taxes due is less than the cost of assessing and collecting them, not to exceed \$50.
§532	<p>In general, the statute of limitations for escapes (including those resulting from audits) is four years.</p> <p>Any assessment to which the penalty provided for in Section 504 must be added shall be made within eight years.</p> <p>Any assessment resulting from an unrecorded change in ownership for which either a change in ownership statement, as required by Section 480 or a preliminary change in ownership report, as required by Section 480.3, is not timely filed with respect to the event giving rise to the escape assessment or underassessment shall be made within eight years.</p> <p>In the case where property has escaped taxation following a change in ownership or change in control and either the penalty provided for in Section 503 must be added or a change in ownership statement, as required by Section 480.1 or 480.2 was not filed with respect to the event giving rise to the escape assessment, an escape assessment shall be made for each year in which the property escaped taxation or was underassessed.</p>
§532.1	Allows for the extension of the time in section 532 for making an escape assessment, correction, or claim for refund if the assessee and assessor have agreed in writing to extend the time allowed before the expiration of the period specified in section 532. This period may be extended by subsequent written agreements made before the expiration of the period previously agreed upon.
§533	In pertinent part, provides that if escape assessments are made as a result of an audit, tax refunds resulting from incorrect assessments shall be an offset against proposed tax liabilities resulting from escaped assessments for any tax year covered by the audit.

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§534	<p>Escape assessments for prior years must be entered at the tax rate applicable to the year(s) of escape.</p> <p>For an escape assessment to be deemed made on the date entered on the roll, the assessor must notify the assessee of escape assessments within 60 days after the statute of limitations or placing of the escape assessment on the roll.</p> <p>The notice must be given on a BOE-prescribed form and must include the date the notice was mailed and information regarding review and appeal rights and procedures, including that an appeal must be filed within 60 days of the later of the printed date of mailing or the postmark date. For counties that have adopted a resolution pursuant to section 1605(c) or Los Angeles County, the appeal must be filed within 60 days of the mailing date printed on the tax bill or the postmark for the bill, whichever is later.</p> <p>Giving the notice required by section 531.8 does not satisfy the requirements of this section.</p>
§4831	<p>Any error or omission (whether the error resulted with an increase or decrease to the original entry on the roll) not involving the exercise of assessor value judgment, clerical error, may be corrected within four years. The four-year limit does not apply to escape assessments caused by the assessee's failure to report the information. Any error or omission not involving the exercise of assessor value judgment that is discovered as a result of any audit may be corrected within six months after the completion of the audit.</p>
§4831.5	<p>A clerical error 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. The error on the roll may be corrected at any time after the roll is delivered to the auditor by the clerk of the county board and within the time allowed for assessing property which has escaped assessment as provided in Sections 532 and 532.1.</p>
Property Tax Rules	
Rule 191	<p>Defines the purpose of an audit in general and gives requirements regarding notification to taxpayers of the audit findings and their rights following an audit. Upon completion of an audit, the assessor must notify the taxpayer of findings which would alter any previously enrolled assessment.</p>
Rule 192	<p>Defines significant number of audits. The assessor must annually conduct a significant number of audits of the books and records of taxpayers engaged in a profession, trade, or business who own claim, possess, or control locally-assessable trade fixtures and business tangible property in the county to encourage the accurate and proper reporting of the property.</p>

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Rule 193	<p>Authorizes sampling of one year within the four-year audit period. If a discrepancy is found in the fiscal year first examined, the assessor must audit all years within the statute of limitations unless the discrepancy or irregularity in the fiscal year first selected is peculiar to that fiscal year; and the discrepancy or irregularity did not disclose an escape assessment under the provisions of Revenue and Taxation Code sections 469, 502, 503, 531.3, or 531.4; or an error that resulted in property being incorrectly valued or misclassified that caused the property to be assessed at a higher value than would have been on the roll if the error had not occurred. The error that caused the property to be assessed at a higher value than would have been on the roll must be of "material value" as defined in Rule 305.3.</p> <p>If an account is subject to BOE assessment sampling and no discrepancy is found between the BOE audit and the taxpayer's property statement, the assessor may use the BOE audit results to satisfy the SA requirement.</p>
Rule 305.3	<p>If the result of an audit discloses property subject to an escape assessment for any year covered by the audit, then, pursuant to section 1605 of the Revenue and Taxation Code, an application may be filed for review, equalization, and adjustment of the original assessment of all property of the assessee at the location of the profession, trade, or business for that year, except any property that has previously been equalized for the year in question.</p> <p>"Property subject to an escape assessment" means any individual item of the assessee's property that was underassessed or not assessed at all when the assessor made the original assessment of the assessee's property, and which has not been previously equalized by an appeals board, regardless of whether the assessor actually makes or enrolls an escape assessment. 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.</p> <p>If the audit discloses that any property was subject to an escape assessment, the assessor shall include that fact as a finding presented to the taxpayer as required by Rule 191. If no such finding is made by the assessor, the taxpayer may file an application and present evidence to the board of the existence and disclosure of property of material value subject to escape assessment. For purposes of this regulation only, "material value" means value of no less than 1 percent of the audited value of the taxpayer's trade fixtures and tangible personal property for the year under audit. If the board determines that property subject to escape assessment was disclosed as a result of an audit, the board shall permit the taxpayer's section 469 appeal.</p>
Rule 1045	<p>The annual tax imposed by section 5721 of the Revenue and Taxation Code on the privilege of breeding, training, caring for, or racing racehorses in this state shall be administered as provided herein.</p> <p>Audits</p> <ul style="list-style-type: none"> • The assessor shall audit the tax records relative to his or her county of any

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	<p>racehorse owner who, according to the assessor's records, had a gross tax liability (before addition of any penalties) that exceeds \$4,000 for each of four consecutive calendar years. This audit shall be performed within five years of the date on which the annual racehorse tax first became due and shall include, but need not be limited to, a comparison of the annual racehorse tax return with records maintained by the taxpayer. The assessor, when performing an audit pursuant to this regulation of a taxpayer's records of racehorses taxable at a home ranch or other business location, may also audit records of the same taxpayer pertaining to personal property and fixtures on property having tax situs at the same location.</p> <ul style="list-style-type: none"> • When an assessor schedules an audit of the records of any racehorse owner, whether as part of an audit required by section 469 of the Revenue and Taxation Code or independently thereof, the assessor shall advise the assessor of any other county in which racehorses of the taxpayer were taxable, as shown in the Annual Racehorse Tax Returns or in any other source, of the date on which the audit will be performed. Upon completion of the audit, the assessor shall make that portion of the audit findings relevant to the annual racehorse tax available to the assessor of any other county in which racehorses of the taxpayer were taxable. • On discovery that horses escaped taxation, the assessor shall determine whether they were subject to the annual racehorse tax, were subject to the property tax, or were exempt. If determined taxable, the assessor shall either provide the tax collector with copies of the audit workpapers so that a determination of additional racehorse tax due can be calculated or enroll an ad valorem assessment of escaped personal property.
Assessors' Handbook	
<p>AH 506, (March 2016)</p>	<p><i>Property Tax Audits and Audit Program</i>, provides guidance in developing and improving property tax audits and audit programs in county assessors' offices.</p>
Letters To Assessors	
<p>78/140</p>	<p>Section 470 of the Revenue and Taxation Code and §1506 of the California Corporations Code provide the county assessor with sufficient statutory authority to require that foreign and out-of-state domestic taxpayers bring their records to California for audit purposes.</p>
<p>84/38</p>	<p>Whenever escaped property is discovered as the result of an assessor's audit, the taxpayer is entitled to equalization on the entire property for the year of such escape, regardless of whether the assessor actually enrolls an escape assessment.</p> <p>Where a §469 audit discloses escaped property but the escape was offset by an</p>

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	overassessment, the assessor must provide formal notice to the taxpayer for purposes of the 60-day filing period allowed for appeals of assessments made outside the regular filing period.
86/07	<p>If, following an audit by the assessor of property, for which the value was estimated pursuant to §501, it is discovered that the property was overvalued for any reason, the taxpayer may file a claim for refund or cancellation, or may file an appeal under §1603.1.</p> <p>If the estimated assessment is reduced, the non-filing penalty under §463 should be reduced also, since it was based on the amount of assessment.</p>
86/62	When an assessor's audit discloses an overassessment, both mandatory and nonmandatory account owners must be notified of their right to file a claim for refund or cancellation of taxes based on such assessment.
2001/031	<p>In the case Heavenly Valley v. El Dorado County Board of Equalization (2000) 84 Cal.App.4th 1323 (modified 86 Cal.App.4th 25), the Third District Court of Appeal affirmed that a taxpayer is entitled to an assessment appeals hearing, where a mandatory audit discloses underassessed or overassessed property, regardless of whether the assessor enrolls an escape assessment.</p> <p>The court also ruled that a local equalization hearing to determine jurisdiction constitutes a hearing and final determination for purposes of the two-year limit provided in Revenue and Taxation Code §1604(c).</p>
2003/066	<i>Notice of Enrollment of Escape Assessment</i> and <i>Notice of Supplemental Assessment</i> forms are BOE-approved rather than BOE-prescribed. Forms BOE-66-A/-B or BOE-67-A/-B meet statutory requirements. If the assessor chooses to develop his own forms instead, they must still contain the elements specified in §75.31 and §534 and must be submitted to the BOE for review and approval.
2005/022	Amends Property Tax Rule 1045 to raise the threshold dollar amount for mandatory audits of racehorse accounts.
2005/023	Amends Property Tax Rule 305 to delineate certain issues regarding property owner's rights to appeal audit findings.
2008/059	Section 469 has been revised to require that the assessor conduct a significant number of audits (75 percent of the mandatory workload for fiscal years 2002 - 2005). 50 percent of the audits must come from this mandatory pool, but the other 50 percent the assessor may choose through another method.
2009/003	Illustrates the practical application of revised section 469 . Includes a table showing two examples of the audit selection process from both small and large mandatory audit populations.
2009/013	Answers a series of questions concerning the newly developed requirements and implementation of section 469 .
2009/049	Listing of minimum annual Property Tax audits for each county. The data compiled shows the required audit workload for each county.

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2010/026	Announces the revision of Rules 192, 193 and 371 pursuant to the amended provisions of section 469 .
2010/030	On May 26, 2010, the Board of Equalization approved the <i>Guidelines for Substantiating Additional Obsolescence for Personal Property and Fixtures</i> . The <i>Guidelines</i> discuss methods of recognizing and measuring additional or extraordinary obsolescence for personal property and fixtures.
Annotations	
180.0024	A property owner may apply for review, equalization, and adjustment of a county assessor's assessment with respect to the value of all property at the location of the owner's business after an audit of the value of trade fixtures and business tangible personal property has been made by the county assessor that discloses both an underassessment and overassessment of some of the property, resulting in no change to the original assessment.
180.0025	If an audit does not disclose any property which has escaped assessment, then the appeal rights set forth in Revenue and Taxation Code sections 469 and 1605 are not available. This is in contrast to an audit situation in which properties are found to be underassessed and, therefore, subject to escape assessments, but no escape assessments are enrolled because the underassessed properties are netted against over-assessed properties.
180.0086	Appeal applicants do not have to overcome the material value standard prescribed by Property Tax Rule 305.3(b)(2) to obtain an equalization hearing on all property at a location when a county assessor has issued audit findings identifying property subject to an escape assessment.
195.0010	See LTA 86/62 .
580.0001	Mandatory audits of banks and insurance companies are determined by considering only the full value of trade fixtures, since their personal property is not subject to property taxation.
580.0005	Following the transfer of business property to a new owner or legal entity, the four-year mandatory audit schedule must reflect the property value and status of the transferee.
580.0009	If an audit discloses that computer equipment was incorrectly classified on the BPS was assessed at a lower value as a result of the misclassification, the assessor may issue an escape assessment pursuant to section 531.4 for the value of the equipment that was underassessed. However, if the taxpayer accurately reported the computer equipment, but the assessor determines by audit that incorrect lives were used that caused the equipment to be assessed at a lower value, the equipment is not subject to an escape assessment. A change in a life table involves the exercise of value judgment, and the assessor is not authorized to correct such an error under section 4831.
580.0015	An assessment appeals board may consider whether leased real property forms an appraisal unit with the lessee's personalty, when lessee's property has been audited under §469 .

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580.0020	See LTA 78/140 .
580.0021	Lessor and lessee are both subject to audit if the value of the leased property exceeds the value threshold established by §469 .
580.0022	A county appraiser with no accounting degree or auditing experience, who places on an auditor-appraiser employment list by oral examination, is not qualified to perform mandatory audits under §670(d) .
580.0030	When refunds result from an audit, the auditor and tax collector are required to offset those refunds by any proposed escape assessments. Generally, escape assessments must be enrolled and delivered to the auditor within four years after July 1 of the assessment year in which the property escaped assessment. Escape assessments not enrolled within the statute of limitations are invalid and may not be used for purposes of offsetting proposed refunds.
580.0040	Trade fixtures, for purposes of inclusion as part of the mandatory audit program, are defined in California Civil Code section 1019 as property that a tenant installs for purposes of trade and which does not become an integral part of the building. This includes any property qualifying as fixtures under the definition in the business property statement, plus machinery and equipment classified as improvements. The value of such trade fixtures is to be included as part of the total combined full value of personal property, fixed machinery and equipment, and fixtures when establishing the minimum full value of a mandatory audit. LTA 79/178 ; LTA 80/53 .
720.005	The failure in the course of an audit to uncover an overpayment of taxes does not negate a taxpayer's obligation to file a claim for refund within the applicable statutory period. Ideally, an audit will discover overpayments as well as underpayments of taxes. However, an audit does not excuse failure to meet applicable statutory deadlines, such as those covering claims for refund.