

## BUSINESS EQUIPMENT VALUATION AUTHORITATIVE CITATIONS

The following provides the authoritative citations for the Business Equipment Valuation 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
<b>California Constitution</b>	
<a href="#">Article XIII, §14</a>	All property taxed by a local government shall be assessed in the county, city, and district in which it is situated.
<a href="#">Article XIII, §27</a>	The net income tax on state and national banks is in lieu of all other taxes, except real property taxes and vehicle license fees. The in lieu tax has the effect of exempting the personal property of banks from taxation.
<a href="#">Article XIII, §28</a>	The gross premiums tax on insurance companies is in lieu of all other taxes, except real property taxes and vehicle license fees. The in lieu tax has the effect of exempting the personal property of banks from taxation.
<b>Revenue and Taxation Code</b>	
<a href="#">§104</a>	Real estate or real property includes: <ul style="list-style-type: none"> <li>• the possession of, claim to, ownership of, or right to the possession of land;</li> <li>• all mines, minerals, and quarries in the land, standing timber whether or not belonging to the owner of the land, and all rights and privileges appertaining thereto;</li> <li>• improvements (includes equipment that is characterized as a fixture).</li> </ul>
<a href="#">§105</a>	Improvements include: <ul style="list-style-type: none"> <li>• all buildings, structures, fixtures, and fences erected on or affixed to land;</li> <li>• all fruit, nut bearing, or ornamental trees and vines, not of natural growth, and not exempt from taxation, except date palms under 8 years of age.</li> </ul>
<a href="#">§106</a>	Personal property includes all property except real estate.
<a href="#">§129</a>	Business inventory includes goods held for sale or lease in the ordinary course of business, including raw materials, work in process, animals used in the production of food and fiber, goods held by a licensed contractor but not yet incorporated into real property, and illegal goods; but excludes goods out on lease or held for lease that were previously used by the lessor.
<a href="#">§201.5</a>	Possessory interests in property acquired by or for the California Pollution Control Financing Authority, whether in real or personal property are subject to taxation.

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<a href="#">§212</a>	Intangible assets and rights are exempt from property taxation, but their presence may be assumed in valuing taxable property.
<a href="#">§213</a>	An exhibit that is personal property, brought in temporarily from another state or foreign country where it is currently taxable, is exempt from taxation.
<a href="#">§213.6</a>	Previously personal property owned by the Civil Air Patrol was exempt from taxation.
<a href="#">§219</a>	Business inventories are exempt from property taxation.
<a href="#">§224</a>	Household furnishings and personal effects are exempt from taxation.
<a href="#">§225</a>	Trailers and semitrailers having valid identification plates are exempt from personal property taxation.
<a href="#">§235</a>	If personal property is leased from a bank or financial institution, the lessee is conclusively presumed to be the owner for property tax purposes.
<a href="#">§241</a>	The first \$50,000 of employee-owned hand tools are exempt from taxation.
<a href="#">§242</a>	Exempts from property tax qualified property for use in space flight for lien dates 2014 through 2024. The exemption is limited to taxpayers that have a primary business purpose in space flight activities and requires the taxpayer, upon request of the assessor, evidence that the qualified personal property exempted from property taxes under this section has been or will be used in space flight capacity.
<a href="#">§401.5</a>	Requires that the BOE issue information that, in the judgment of the BOE, will promote uniformity in assessment practices throughout the state. The data may relate to costs of property, or, with respect to commercial or industrial property, BOE may approve commercially available data.
<a href="#">§401.16</a>	In applying AH 581, assessors should not average BOE's separate new and used cost factors. If the taxpayer does not furnish information indicating new or used condition, the assessor may average. The assessor shall not use a minimum percent good for equipment depreciation that is not supportable.
<a href="#">§986</a>	The assessable value of a work of art, owned by the author and never sold or exhibited for profit, is limited to the full value of the materials involved.
<a href="#">§988</a>	The assessable value of motion pictures is limited to the full value of the materials involved and excludes the value of any intangible rights associated with the film.
<a href="#">§994</a>	Certain rubber-tired cranes, commercial vehicles, and rubber-tired equipment, if registered and licensed under the Vehicle Code provisions, shall not be assessed

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	for property tax purposes.
<a href="#">§995</a>	Storage media for computer programs shall be valued as if there were no computer programs on such media except for basic operational programs.
<a href="#">§995.2</a>	Defines basic operational program as a computer program that is fundamental and necessary to the functioning of a computer.
<a href="#">§996</a>	Returnable containers for soft drink beverages must be assessed to whoever possesses them on the lien date, unless there is a legal obligation to return them.
<a href="#">§997</a>	Business records shall be valued only for the tangible material contained in them.
<a href="#">§6356.5</a>	Sales and storage and use of farm equipment and machinery is exempted from the state general fund portion of the sales tax, when such property is used by a qualified person primarily in producing and harvesting agricultural products.
<a href="#">§6356.6</a>	Sales and storage and use of equipment and machinery designed primarily for off – road use in commercial timber harvesting operations is exempted from the state general fund portion of the sales tax, when such property is used by a qualifying person to be used primarily in harvesting timber.

### Property Tax Rules

<a href="#">Rule 2</a>	"Full cash value" and "fair market value" mean the price at which a property, if exposed for sale in the open market with reasonable time for the seller to find a purchaser, would transfer for cash or its equivalent under prevailing market conditions between parties who have knowledge of the uses to which the property may be put, both seeking to maximize their gains and neither being in a position to take advantage of exigencies of the other.
<a href="#">Rule 10</a>	<p>In appraising personal property, the assessor shall give recognition to the trade level at which the property is situated and to the principle that property normally increases in value as it progresses through production and distribution channels.</p> <p>Such property normally attains its maximum value as it reaches the consumer level.</p> <p>Tangible personal property held by a consumer shall be valued at the amount of cash or equivalent for which the property would transfer to a consumer of like property at the same trade level if exposed for sale on the open market. Except as provided below, the value is to be estimated using Rules 4, 6, and 8. If a cost approach, costs shall represent full economic costs of placing the property in service (labor and materials, freight, shipping, installation, sales and use taxes, and</p>

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	<p>additions for market supported entrepreneurial services).</p> <p>Tangible personal property leased, rented, or loaned for a period of six months or less, having a tax situs at the place where the lessor normally keeps the property, shall be valued at the amount of cash or its equivalent for which it would transfer to other lessors or retailers of like property.</p> <p>Tangible personal property leased, rented, or loaned for a term of more than six months, having a tax situs at the lessee's situs, shall be valued by estimating the cash price or its equivalent for which the property could be sold at fair market value to an outside customer operating at the same level of trade.</p> <p>Tangible personal property acquired from internal sources for self-consumption or use, shall be valued by estimating the cash price or its equivalent for which the property could be sold at fair market value to an outside customer using the property at the same trade level.</p> <p>Tangible personal property in the hands of a person engaged in the function of manufacturer, wholesaler, or retailer, and a consumer shall be valued by estimating the cash price or its equivalent for which the property could be sold at fair market value to an outside consumer operating at the same level of trade.</p>
<p><a href="#">Rule 122.5</a></p>	<p>A fixture is an item of tangible property, the nature of which was originally personalty, but which is classified as realty for property tax purposes because it is physically or constructively annexed to realty with the intent that it remain annexed indefinitely.</p> <p>Proper classification as a fixture or personal property results from a determination made by applying the criteria of this rule to the facts in each case.</p> <p>Sets forth the three tests for determining whether an item is a fixture. The three tests are physical annexation, constructive annexation, and intent.</p> <p>An automated teller machine (ATM) installed as a free standing or counter-top units within a building, such as a bank, supermarket or other retail establishment, is personal property. An ATM installed in a structure that was built primarily for the purpose of housing the ATM or an ATM installed through the wall of a building is a fixture. (Sub.(e)(9))</p> <p>Agricultural wind machines that are permanently affixed to the land are properly classified as fixtures. (Sub.(e)(10))</p>
<p><a href="#">Rule 133</a></p>	<p>Identifies items that qualify and do not qualify for the inventory exemption.</p>

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	<p>Exempt items are:</p> <ol style="list-style-type: none"> <li>1. Personal property sold in the ordinary course of business</li> <li>2. Items incorporated into a product held for sale in the ordinary course of business (special mention of oak wine/brandy barrels of up to 212-gallon capacity used in the fermentation or distillation process to impart flavor and aroma)</li> <li>3. Animals used in the production of food or fiber</li> <li>4. Personal property held for lease in the normal course of business on the lien date, unless the lessor has previously used the property</li> <li>5. Personal property held by a repairer or reconditioner with the intent of transferring the parts and material to the customer</li> <li>6. EFFECTIVE October 1, 2014, added: Space flight property, not operationally reusable, the control over which is relinquished by the owner upon launch.</li> </ol>
<a href="#">Rule 134</a>	Household furnishings, pets, and personal effects are exempt from property taxation.
<a href="#">Rule 152</a>	<p>Computer programs shall not be valued for property taxation except with respect to storage media as provided in section 995.</p> <p>Explains how to properly determine the classification of computer software.</p>
<a href="#">Rule 153</a>	Provides guidance on valuing liquefied petroleum (propane) gas tanks and determining when they are to be considered leased.
<a href="#">Rule 205</a>	<p>Movable property has situs where located on the lien date if (1) it has been in the county for more than 6 of the 12 months immediately preceding the lien date and (2) it will remain in or be returned to the county for any substantial period during the 12 months immediately succeeding the lien date.</p> <p>Movable property which has been in the county for less than 6 of the 12 months immediately preceding the lien date, but which is committed to use in the county for an indeterminate period for more than 6 months, has situs there regardless of whether the use extends through or commences with the lien date.</p> <p>Movable property that does not have permanent situs where it is located on the lien date has assessable situs at the location where it is normally returned between uses. If there is no such location, the situs is the principal place of business of the owner.</p>
<a href="#">Rule 461(e)</a>	For the purposes of a fair market value determination, fixtures constitute a separate appraisal unit.
<a href="#">Rule 463 (c)</a>	Defines a fixture as "an improvement whose use or purpose directly applies to or augments the process or function of a trade, industry, or profession."

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<a href="#">Rule 474</a>	For petroleum refineries, land, improvements, and fixtures classified as improvements are rebuttably presumed to constitute a single appraisal unit, except when measuring declines in value caused by disaster, in which case land constitutes a separate appraisal unit.
<b>Assessors' Handbook</b>	
<a href="#">AH 504, (October 2002)</a>	<p><i>Assessment of Personal Property and Fixtures</i></p> <p>The appraiser should consider all three tests when classifying property (as a fixture or personal property); physical annexation, constructive annexation, and intent. Courts have stated that intent is the most important and must be measured with—not separately from—the method of physical attachment or constructive annexation (pages 13-20).</p> <p>A good presentation of the trade level concept, useful when book cost does not provide adequate information for a fair market value appraisal. An adjustment most frequently applicable to leased equipment and self-constructed equipment (pages 63-69).</p>
<a href="#">AH 581 (January 2016)</a>	<p><i>Equipment Index and Percent Good Factors.</i></p> <p>Published annually for use in computing replacement cost new less normal depreciation (current market value estimates) from acquisition costs.</p> <p>Index factors are used to estimate current replacement cost new (RCN).</p> <ul style="list-style-type: none"> <li>• Contains one category of RCN index for commercial equipment, one category for industrial equipment, and one category each for agricultural and construction equipment.</li> <li>• Due to rapid technological changes, the BOE recommends use of a maximum equipment index factor when valuing commercial and industrial equipment. Maximum factor is the factor for an age equal to 125 percent of the estimated average service life.</li> </ul> <p>Percent good factors are applied to replacement cost new to estimate replacement cost new less normal depreciation.</p> <ul style="list-style-type: none"> <li>• The percent good factors are set forth in two tables, one for machinery and equipment and one for agricultural and mobile construction equipment.</li> <li>• Commercial and industrial machinery and equipment percent good factors are based on average service life and age or year of acquisition.</li> <li>• Percent good factors for agricultural and construction equipment is provided for new and used equipment. Agricultural and construction percent good factors are based on age or year of acquisition.</li> </ul> <p>Special valuation factor tables are included for semiconductor manufacturing equipment and fixtures and biopharmaceutical equipment and fixtures.</p>

CITATION	DESCRIPTION
<b>Special Topic Survey</b>	
<a href="#">Minimum Percent Good Factors</a>	<i>Minimum Percent Good Factors</i> (November 1999), page 20. BOE staff's position is that minimum percent good factors should be used only with adequate factual support.
<b>Letters To Assessors</b>	
<a href="#">78/80</a>	References Attorney General Opinion CV 77/187. A work of art on either revocable or irrevocable consignment may be assessed to either consignor artist or consignee gallery. If never sold or exhibited for profit, the work of art should be assessed only for the value of the materials that constitute it.
<a href="#">78/88</a>	For purposes of §224, "pet" means any animal held for noncommercial purposes and not used as an investment.
<a href="#">78/209</a>	Contractors' materials, held by the contractor to fulfill existing and anticipated construction contracts, are eligible for the business inventory exemption.
<a href="#">79/75</a>	The situs of rented linen supplies is the place where the linen is returned for cleaning, even if that place is located in a county other than the one where the linen is used.
<a href="#">79/170</a>	A statewide listing of nonprofit hospital service corporations and fraternal benefit societies that are exempt from both the gross premiums tax that other insurance companies pay, and all other taxes, except those on real property.
<a href="#">80/69</a>	A series of questions and answers about what kinds of business property are and are not eligible for the business inventory exemption.
<a href="#">80/82</a>	A statewide listing of home protection companies which are eligible for exemption from personal property taxation.
<a href="#">81/94</a>	Clarifies that "windmills" (wind machines) are not "active solar energy systems" for purposes of the §73 new construction exclusion.
<a href="#">83/59</a>	Addresses whether pallets and rigid delivery cases are "containers" within the meaning of Rule 133, and how "deposits" affect the determination of whether title to containers passes to the purchaser of the product.
<a href="#">84/102</a>	Franchise Tax Board (FTB) guidelines for determining what constitutes a "financial corporation" for purposes of exemption from personal property taxation (superseded in part by §235, which conclusively presumes the lessee of bank owned property to be the owner for property tax purposes).

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<a href="#">85/12</a> , <a href="#">85/88</a>	In <i>Allstate Insurance Company v. County of Los Angeles et al</i> 161 Cal.App.3d 877, and <i>Security Pacific National Bank v. County of Los Angeles, et al.</i> 161 Cal.App.3d 877, the 2 <sup>nd</sup> District Court of Appeal held that modular general purpose computers and related components remained personalty, not fixtures, in a standard office configuration. These cases became final in February 1985 after the California Supreme Court denied hearing.
<a href="#">86/60</a>	Video cassettes held for sale or rent are exempt as business inventory; those actually rented on the lien date must be taxed only for the full value of the tangible material of which they are made.
<a href="#">86/90</a>	An amendment to §129 excludes from the definition of business inventory illegal drugs or goods which cannot be legally sold or leased in California, and therefore allows assessors to assess such items.
<a href="#">88/24</a>	Clarifies the proper classification of certain service station equipment as fixtures. Such items include tanks, pumps, hoists, and air/water wells.
<a href="#">89/58</a>	Household furnishings used in residential care facilities should be treated as other taxable business personal property. Such items are not eligible for exemption under §224.
<a href="#">90/07</a>	In the November 1989 case <i>Crocker National Bank v. City and County of San Francisco</i> 49 Cal.3d 881, the California Supreme Court ruled that general purpose electronic data processing equipment are personalty and not fixtures, even when installed in a specially designed building with supporting systems incorporated into its design.
<a href="#">90/45</a>	Presents guidelines for the proper classification of hospital property as either supplies or inventory. The crux of the argument is that a hospital is a professional service enterprise, and tangible personal property that transfers to a patient in the ordinary course of business is incidental to the rendering of professional medical treatment and is therefore properly categorized as a supply item. The exception would be inventory items such as prostheses, pacemakers, artificial joints and pins, and artificial body parts.
<a href="#">91/68</a>	Rental linens either actually in the possession of a lessee or renter, or contractually committed as to specific quantity or specific linens, are not eligible for the inventory exemption.
<a href="#">92/27</a>	Assessors should provide detailed information to taxpayers regarding the reallocation of service station improvement assessments between structures and fixtures.

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	Industry recommends that island curbing, signs, hoists, compressors, air and water wells, dispensers and pumps, and tanks and related equipment be classified as fixtures; and that buildings, curbing, paving, restrooms, walls, fencing, yard lighting, landscaping, and the island canopy be classified as structures.
<a href="#">94/44</a>	Household non-business use equipment including golf carts, riding lawn mowers, tractors, and backhoes are not exempt as household furnishings, nor are they exempt as vehicles paying in-lieu fees to the Department of Motor Vehicles. Although taxable, some may be eligible for exemption under a low-valued property resolution, while others remain taxable.
<a href="#">94/76</a>	The first \$20,000 of employee-owned hand tools required for employment became exempt from personal property taxation as of September 12, 1994. <i>Note: Exemption increased to \$50,000 as of August 9, 2001.</i>
<a href="#">95/42</a>	Amended §2189 allows the assessor to transfer a secured personal property assessment to the unsecured roll in the name of the assessee on the lien date.
<a href="#">96/25</a>	Amended §234 of the Public Utilities Code excludes from the definition of "telephone corporation" one-way paging services utilizing facilities not licensed by the Federal Communications Commission. For the 1996 lien date and thereafter, such companies will be assessed by county assessors. A list of such companies throughout California was enclosed with the letter.
<a href="#">96/29</a>	Although the value of a computer storage medium should include the value of any basic operational programs embedded on it, the proper assessee is determined only by the ownership and control of the storage media.
<a href="#">96/49</a>	The exemption of personal property owned by the Civil Air Patrol became permanent for the 1997 lien date. No claim form need be filed.
<a href="#">99/39</a>	The 2 <sup>nd</sup> District Court of Appeal, in <i>Hahn, et al. v. State Board of Equalization; International Business Machines Corporation, Real Party in Interest</i> , upheld Rule 152, <i>Computer Program Storage Media</i> .
<a href="#">99/45</a>	All components of a fire detection system installed in a pre-existing structure are excluded under §74 from new construction, regardless of whether the property owner owns the fire detection system.
<a href="#">99/54</a>	BOE-approved valuation factors for use when valuing biopharmaceutical equipment for the 1999 lien date: <ul style="list-style-type: none"> <li>• Valuation factors are provided for the categories of machinery and equipment; other equipment; tools, molds, dies, jigs (reported on Schedule A), and fixtures (reported on Schedule B.)</li> </ul>

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	<ul style="list-style-type: none"> <li>Valuation factors are to be applied directly to historical costs.</li> <li>Minimum percent good factor of 10 percent is to be applied to equipment older than 12 years.</li> </ul>
<a href="#">99/62</a>	As of September 17, 1999, underground storage tanks that are improved, upgraded, or replaced to comply with federal, state, or local regulations, and structures reconstructed as a result of tank work, are prospectively excluded from the definition of "new construction."
<a href="#">99/83</a>	In 1998, 15 electric generation facilities were sold by regulated public utilities to 15 other investor owned utilities. These facilities may be locally assessable for the 1999 lien date and subject to supplemental assessment. Assessors could contact the BOE's Valuation Division for the allocated value of each of these facilities.
<a href="#">2000/059</a>	In <i>Transworld Systems, Inc. v. County of Sonoma</i> (2000) 78 Cal. App. 4th 713, the court held that property of nonprofessional service enterprises constitutes exempt business inventory, if delivered incidental to a service rendered, regardless of whether the goods are delivered to the customer or a customer-designated third party.
<a href="#">2002/029</a>	Discusses the effect on property tax valuation of the partial sales tax exemption provided by §6356.5 and Sales and Use Tax Regulation 1533.1, Farm Equipment and Machinery. Where the replacement or historical cost approaches are used to value qualified new and used agricultural equipment (i.e., purchased for use by a qualified person and to be used primarily in producing and harvesting agricultural products), an adjustment must be made to remove the component of cost attributable to the state general fund portion of the sales tax.
<a href="#">2002/078</a>	<p>BOE guidelines for the assessment of billboard properties:</p> <ul style="list-style-type: none"> <li>Billboards are classified as fixtures</li> <li>A sale of a billboard normally includes the sign and foundation (improvements), the use permit (land), and the site (leasehold interest in the land).</li> <li>The leasehold interest cannot be assessed unless the fee interest in the land sells.</li> <li>The income approach is not favored because of the difficulty in isolating income attributable to the taxable property - much of the income depends on location, allocable to land (and not billboard).</li> </ul> <p>The billboard use permit is an intangible asset that is not separately assessable but must be reflected in the land value.</p>
<a href="#">2004/019</a>	Salvage value data in the Marshall Valuation Service publication may be a useful guide to minimum percents good for business personal property and trade fixtures; but since the percentages are intrinsically general, care must be taken in applying them to specific items of equipment. Taxpayer-provided evidence should also be considered in the valuation process.

CITATION	DESCRIPTION
<a href="#">2010/030</a>	<i>Guidelines for Substantiating Additional Obsolescence for Personal Property and Fixtures.</i> These guidelines were put together in reference to recognition and measurement of additional obsolescence in personal property and fixtures. The guidelines discuss methods of recognizing and measuring additional or extraordinary obsolescence for personal property and fixtures.
<a href="#">2014/050</a>	Effective October 1, 2014, Property Tax Rule 133 was amended to add subdivision (a)(2)(E) to clarify that the business inventory exemption applies to space flight property, not operationally reusable, the control over which is relinquished by the owner upon launch.
<b>Annotations</b>	
<a href="#">100.0008</a>	Annotated correspondence dealing with the business inventory exemption for consigned aircraft.
<a href="#">205.0010-</a> <a href="#">205.0340</a>	Annotated correspondence dealing with the business inventory exemption.
<a href="#">260.0095</a>	Third Party Property Statements. Information submitted by multiple taxpayers on their property statements may be used by the assessor to derive industry wide averages that may be used to assess or defend the assessment of another taxpayer. Identification of the submitters of the property statements should not be made in public session, but can be made in camera to either the appeals board or a court. C 1/14/94.
<a href="#">325.0015</a>	Deadlines Falling on Saturdays, Sundays, and Holidays. Whenever the due date for filing of any document with a state agency or the county assessor falls on a Saturday, Sunday, or holiday, the document may be filed by close of business on the next business day with the same effect as if it had been filed on the specified due date. If the county board of supervisors has, by ordinance, required the assessor's office to be open on Saturday morning, a document required to be filed on that Saturday must be filed by noon on that Saturday. C 3/11/97.
<a href="#">515.0001-</a> <a href="#">515.0010</a>	Annotated correspondence dealing with the taxability of household furnishings.
<a href="#">530.0001-</a> <a href="#">530.0050</a>	Annotated correspondence dealing with the taxability of property owned by insurance companies.
<a href="#">560.0010-</a> <a href="#">560.0045</a>	Annotated correspondence dealing with the taxability of property leased to government.
<a href="#">680.0010-</a> <a href="#">680.0100</a>	Annotated correspondence dealing with exempt vehicles and equipment registered with the California Department of Motor Vehicles.

CITATION	DESCRIPTION
<b>California Assessors' Association</b>	
<a href="#">CAA Business Assessment Factors (January 2016)</a>	Equipment index factors, depreciation tables, and valuation factors adopted by the California Assessors' Association (CAA) for the 2016 lien date.