



California State Board of Equalization

Legislative Bill Analysis

Senate Bill 710 (Blakespear)

Date: Amended 09/05/25 and 09/02/25

Program: Property Taxes

Revenue and Taxation Code section 73

Effective: January 1, 2026

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Analysis Date: October 7, 2025

Summary:

This bill restates provisions of current law regarding newly constructed active solar energy systems that qualify for a property tax exclusion, before January 1, 2027, and that any system that qualifies before the statutory deadline will continue to do so after the exclusion ceases to remain in effect, until there is a subsequent change in ownership.

Recent amendments removed a more limited prospective exclusion contemplated in earlier versions of the bill, resolve chaptering conflicts with AB 1516 enacted earlier this year, and make other minor technical changes.

Summary of Amendments:

The September 5 amendments made the following changes:

- Restates current provisions of law ensuring that any newly constructed active solar energy system that qualifies under the current exclusion before January 1, 2027, continues to do so after the exclusion becomes ineffective, until there is a subsequent change in ownership (clarified in Legislative Counsel Digest only).
- Contains a technical language fix to be consistent with changes enacted by AB 1516 (Committee on Revenue & Taxation), Chapter 72, Statutes of 2025.

The September 2 amendments made the following changes:

- Removed the repeal date for provisions governing the active solar energy system property tax exclusion but maintained existing law by retaining the inoperative date of January 1, 2027.
- Included double-joining language to avoid a conflict with provisions adopted in AB 1516 (Committee on Revenue and Taxation), Chapter 72, Statutes of 2025. In particular, amendments aligned RTC section 73 to clarify that a claim for an exclusion shall be considered timely if it is filed within three years of the date of purchase.
- Removed Section 2 of the bill (RTC section 73.1) which proposed a more limited prospective property tax exclusion beginning January 1, 2027. This change also removed the associated tax levy and its immediate effective date.

Fiscal Impact Summary: Indeterminable.

This staff analysis is provided to address various administrative, cost, revenue, and policy issues; it is not to be construed to reflect or suggest the BOE's formal position.

Existing Law: Under the California Constitution, all property is taxable unless specifically exempted.¹ The Constitution limits the assessed value of property upon which the property tax is imposed. For property tax purposes, real property is reassessed to its current market value when real property undergoes a change in ownership or is newly constructed.² Generally, the law establishes a property's assessed value at its market value³ on the date purchased (base year value) and requires additional assessments to reflect certain construction activities that qualify as "new construction."

Change in Ownership. Different change in ownership laws apply to a person or legal entity who purchases or leases California real property than to a person or legal entity who obtains ownership interests in a legal entity (e.g., voting stock in a corporation, capital and profits in a limited liability company or partnership) that holds an interest in California real property.⁴ As a general rule, transfers of ownership interests in legal entities do not constitute a change in ownership (and, therefore, no reassessment) of the legal entity's real property.⁵ However, there are two exceptions wherein the transfer of ownership interests in a legal entity would trigger a change in ownership of the real property owned by the legal entity.

- **Change in Legal Entity Control.** Section 64(c)(1) requires reassessment when any person or entity obtains control through direct or indirect ownership or control of more than 50 percent of corporation voting stock, or obtains a majority interest (more than a 50 percent ownership interest) in any other type of legal entity. The reassessment applies to all real property owned by the acquired legal entity (and any entity under its control).
- **Cumulative Transfers by "Original Co-owners."** Section 64(d) requires reassessment when voting stock or other ownership interests representing cumulatively more than 50 percent of the total interests in a legal entity are transferred by any of the "original co-owners" in one or more transactions.⁶ The reassessment applies to only the real property previously excluded from change in ownership under Section 62(a)(2).

¹ Article XIII, [Section 1](#) of the California Constitution.

² California Constitution, article XIII A, [Section 2](#); RTC section [110.1](#).

³ The assessed value is based on 1975 market value for property that has not changed ownership since that date.

⁴ California Constitution, article XIII A, Section 2; RTC sections 60 – 69.6

⁵ RTC section 64(a).

⁶ **Proportional Ownership Interests Exclusion Creates "Original Co-owner" Designation.** Under section 62(a)(2), a transfer of real property to a legal entity does not result in a reassessment if the transfer is merely a change in the method of holding title and the proportional ownership interests of the transferors and transferees in the real property transferred are *exactly* the same before and after the transfer. However, after a transfer of real property qualifies for this exclusion from reassessment, the person(s) or entity(ies) holding ownership interests in the legal entity immediately after the transfer are considered "**original co-owners**" for purposes of tracking subsequent transfers by original co-owners of those interests. When such transfers cumulatively exceed 50 percent, the real property previously excluded from reassessment under RTC section 62(a)(2), is subject to reassessment under RTC section 64(d), absent an applicable exclusion.

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New Construction. When substantial additions or alterations occur, the law requires the County Assessor to increase the assessment to reflect the value of "newly constructed" property.⁷ The County Assessor assigns the assessable new construction with its own distinct base year value. The remainder of the property's assessment is unaffected and retains its base year value.⁸ The Constitution allows the Legislature to provide that the term "newly constructed" does not include certain types of new construction. These are commonly called "new construction exclusions." Any value added by these additions or alterations is not subject to be assessed, until the real property undergoes a change in ownership.

Active Solar Energy System New Construction Exclusion. The California Constitution⁹ grants the Legislature the authority to exclude the construction or addition of any active solar energy system from the definition of assessable new construction. Section 73 implements the new construction exclusion. Section 73 is scheduled to sunset on January 1, 2027. Any active solar energy system that was excluded prior to this date will continue to be excluded until a change in ownership occurs.

In 2011, the Legislature added findings and declarations,¹⁰ which provide that in cases where a newly constructed active solar energy system is sold or transferred in sale-leaseback arrangements, partnership flip structures, or other transactions to take advantage of federal tax benefits, the active solar energy system new construction exclusion applies, as long as (1) the system is newly constructed or added, and (2) no other taxpayer has received the exclusion for that same system. The new construction exclusion remains in effect only until there is a subsequent change in ownership.

Proposed Law: SB 710 restates provisions of current law ensuring that any newly constructed active solar energy system that qualifies under the current exclusion before January 1, 2027, continues to do so after the exclusion ceases to remain in effect, until there is a subsequent change in ownership.

The most recent amendments (1) delete the measure's more limited new construction exclusion system that would have become effective on January 1, 2027, (2) insert provisions that resolve conflicts with AB 1516 (Committee on Revenue & Taxation) Chapter 72, Statutes of 2025, which was enacted earlier this year, and (3) make minor technical language changes.

No Reimbursement. Any local property tax dollars lost pursuant to the bill's provisions will not be reimbursed by the state.

⁷ Article XIII A, Section 2 of the California Constitution (Proposition 13) and RTC section [70](#). Additionally, "supplemental assessment" laws make the new construction taxable as of the completion date.

⁸ Unless the new construction replaces certain types of existing improvements, in which case the value attributable to those preexisting improvements is deducted from the property's existing base year value.

⁹ Article XIII A, Section 2(c)(1).

¹⁰ [ABx1 15](#), Ch. 3, Stats. 2011.

In General: Property Tax System. Article XIII, section 1 of the California Constitution provides that all property is taxable at the same percentage of "fair market value," unless specifically exempted, or authorized for exemption. Article XIII A, section 2 defines "fair market value" as the County Assessor's opinion of value for the 1975-76 tax bill, or, thereafter, the appraised value of property when purchased, newly constructed, or a change in ownership has occurred. This value is generally referred to as the "base year value." Annual adjustments to the base year value are limited to 2 percent or the rate of inflation, whichever is less. Article XIII A, Section 2 also provides for certain exclusions from consideration as a "change in ownership" and "newly constructed" as approved by voters via constitutional amendments.

New Construction. The California Constitution does not define the terms "new construction" or "newly constructed." Section 70 defines these terms, in part, to mean:

- Any addition to real property, whether land or improvements (including fixtures) since the last lien date.
- Any alteration of land or any improvements (including fixtures) since the last lien date that constitutes a "major rehabilitation" or that converts the property to a different use.

A major rehabilitation is any rehabilitation, renovation, or modernization that converts an improvement or fixture to the substantial equivalent of a new improvement or fixture.

With respect to any new construction, the law requires the County Assessor to determine the added value upon completion. The value is established as the base year value for those specific improvements qualifying as "new construction" and is added to the property's existing base year value. When new construction replaces certain types of existing improvements, the value attributable to those pre-existing improvements is deducted from the property's existing base year value.¹¹

New Construction Exclusions. Certain types of construction activity are excluded from assessment as "new construction" via constitutional amendment. Consequently, while these improvements may increase the value of the property, the additional value is not assessable. Relevant to this bill, Proposition 7, approved by California voters in November 1980, created an exclusion for active solar energy systems.

Overview of Solar Energy New Construction Exclusion. An "active solar energy system" is defined in RTC section 73 as a system that uses solar devices, which are thermally isolated from living space or any other area where the energy is used, to provide for the collection, storage, or distribution of solar energy. An active solar energy system may be used for any of the following:

- Domestic, recreational, therapeutic, or service water heating
- Space conditioning
- Production of electricity
- Heat processing
- Solar mechanical energy

¹¹ Section [71](#).

An active solar energy system includes storage devices, power conditioning equipment, transfer equipment, and parts related to the functioning of those items. "Parts" includes spare parts that are owned by the owner of, or maintenance contractor for, an active solar energy system for which the parts were specifically purchased, designed, or fabricated for installation in that system. Such a system includes only equipment used up to, but not including, the stage of conveyance or use of the electricity.

An active solar energy system also includes pipes and ducts that are used exclusively to carry energy derived from solar energy. Pipes and ducts that are used to carry both energy derived from the sun and energy derived from other sources may be considered active solar energy system property only to the extent of 75 percent of their full cash value.

This exclusion is scheduled to sunset on January 1, 2027. Any active solar energy system that was excluded from assessment prior to this date will continue to be excluded until a change in ownership occurs.

An active solar energy system does not include auxiliary equipment, such as furnaces and hot water heaters, that use a source of power other than solar energy to provide usable energy. Dual use equipment, such as ducts and hot water tanks, that is used by both auxiliary equipment and solar energy equipment is considered active solar energy system property only to the extent of 75 percent of its full cash value.

RTC section 73 explicitly provides that the exclusion does not apply to solar swimming pool heaters or hot tub heaters. By definition, the exclusion does not apply to "passive" solar systems. Lastly, the exclusion does not apply to wind energy systems.

Exclusion Extended to Initial Purchaser. RTC section 73 was amended in 2008¹² to extend the new construction exclusion after a change in ownership if a new building is initially constructed with an active solar energy system incorporated and subsequently sold by the developer through the 2015-16 fiscal year. Specifically, in the case where an active solar energy system is incorporated by an owner-builder in the initial construction of a new building that the owner-builder does not intend to occupy or use (i.e., a building offered for sale, such as a new home in a subdivision or a new warehouse), the exclusion for the system applies to the building's first buyer if (1) the owner-builder did not receive the exclusion for the same system, (2) if the initial buyer purchased the new building prior to that building becoming subject to reassessment to the owner builder,¹³ and (3) a claim¹⁴ is filed with the County Assessor.

RTC section 73 was amended in 2014 to extend the exclusion through the 2023-24 fiscal year.¹⁵

If the exclusion is eligible to be extended to the initial purchaser, then in determining the base year value to be established as a result of the change in ownership, the base year value is reduced

¹² [AB 1451](#), Ch. 538, Stats. 2008.

¹³ Section 73(e)(1).

¹⁴ Section 73(e)(1)(A); [BOE-64-SES](#), *Initial Purchaser Claim for Solar Energy System New Construction Exclusion*.

¹⁵ [SB 871](#), Ch. 41, Stats. 2014.

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by the portion of the purchase price that is attributable to the active solar energy system. Thereafter, any subsequent change in ownership of the property ends the exclusion of the value of the active solar energy system from property tax.

Common Transactions that may be Eligible for Federal Tax Benefits. Under the 2011 legislative intent language, newly constructed active solar energy systems continue to receive the property tax exclusion if they are transferred using certain transactions that require the active solar energy system to be sold or transferred to a third party that may qualify for federal tax benefit. Transactions that may be eligible for federal tax benefits include, but are not limited to, the following:

- *Sale-leaseback transactions* involve the sale of a property in which the seller immediately begins to lease the property from the buyer. Thus, the seller no longer has ownership of the property, but operates it for the duration of the lease agreement.
- *A partnership flip transaction* is a financing arrangement between a renewable energy developer and a single or multiple tax investors whereby the parties form a partnership or limited liability company to develop and/or own an active solar energy system. This structure involves the tax investor making an investment in the partnership or limited liability company in exchange for the majority of the tax attributes (i.e., federal tax credits, depreciation, and net income) until the investor achieves its pre-established yield. The investor's share of these items is then reduced. The reduction is known as the "flip."

In the case of a partnership flip transaction, if the investment made by the tax investor causes it to obtain more than 50 percent of the capital and profits interests of the partnership or limited liability company (either upon the making of the initial investment or pursuant to subsequent changes in the capital and profits percentages owned by the investor required by the partnership or operating agreement), the change in control is excluded by the new construction exclusion and no reassessment of the active solar energy system will occur. Once the investors achieve a pre-established yield or until after a pre-established period of time, at which time the tax attributes are reduced, and the developer obtains a majority of both the capital and profit interests of the partnership or limited liability company, no change in ownership or reassessment will occur. This type of transaction is limited to one with respect to any portion of an active solar energy system.¹⁶

Legal Entity Change in Control or Ownership. County Assessors discover most real property changes in ownership via grant deeds or other documents recorded with the County Recorder. However, real property owned by a legal entity may undergo a "change in control or ownership" with no grant deed or other document recorded that could alert the County Assessor to a reassessment. These types of changes in control or ownership are reported directly to the State Board of Equalization's (BOE) Legal Entity Ownership Program (LEOP) by the person or entity involved.

¹⁶ [SB 267](#), Ch. 424, Stats. 2021.

Existing law¹⁷ requires legal entities to file a change in ownership statement (LEOP COS) with the BOE within 90 days of a change in control or ownership under RTC section 64(c) or (d). In the case of a change in control under section 64(c), the person or legal entity that acquired control of the legal entity is responsible for filing the LEOP COS.

In addition to the self-reporting requirement to file a LEOP COS, the BOE may send a LEOP COS to an entity to complete and file with the BOE. Annually, the BOE canvasses legal entities with a query on the California Franchise Tax Board income tax return. County Assessors and other interested parties may send referrals reporting possible changes.

Once the BOE determines that a legal entity has undergone a change in control or ownership, the BOE notifies County Assessors of those legal entities' changes in control or ownership.

Commentary:

- **Section 73.1 is not a real property tax "exemption" for solar energy facilities, but a new construction "exclusion."** The new construction exclusion was created in 1980 via Proposition 7 to provide that the construction or addition of an active solar energy system to an existing property, by itself, would not lead to a revaluation of the property for property tax purposes. A new construction exclusion terminates if there is a transfer of the property resulting in a property's change in ownership (a reappraisal event). In the case of any locally assessed large scale solar project, only the active solar energy system improvements are eligible for the new construction exclusion, while the land remains subject to property tax.¹⁸
- **State assessed properties are not eligible for the new construction exclusion because it is only applicable to locally assessed property.** In *ITT World Communications, Inc. v. City and County of San Francisco* (1985) 37 Cal.3d 859, the California Supreme Court ruled that Proposition 13's (article XIII A) assessment rollback, its 2 percent limit on annual assessment growth, and its limit on current market value assessment only upon a change in ownership or new construction did not apply to state-assessed property, only to locally assessed property. As a result, taxable property in California is now generally split into two major categories: locally assessed property subject to article XIII A assessment limitations and state-assessed property not subject to those assessment limitations. Thus, active solar energy system owned by public utilities and subject to BOE assessment do not benefit from the section 73 new construction exclusion; value of these properties would continue to be captured under the unitary approach to value.

¹⁷ Sections [480.1](#) and [480.2](#).

¹⁸ If the land is government owned, the land could become subject to a possessory interest. Generally, a taxable possessory interest exists when a taxpayer possesses an interest in government real property that is durable, independent, exclusive of the rights held by others in the real property and the interest provides a private benefit to the possessor.

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- **2025 Legislation Impact.** On July 28, 2025, Governor Newsom signed AB 1516 (Committee on Revenue & Taxation), Chapter 72, Statutes of 2025, which amended the same section as SB 710 to provide that property owners have three years from the date of purchase to file a claim for the active solar energy exclusion that applies retroactively to the date construction is completed. AB 1516 provided that this change became operative on January 1, 2027; however, this change will not become operative under current law because current law contains a January 1, 2027, repeal date. This bill instead provides that the exclusion shall only remain in effect until January 1, 2027, on which date AB 1516's change becomes operative, thereby setting a three-year limit for first buyers to file a claim for the active solar energy exclusion that applies retroactively to the date construction is completed.

Costs: The BOE would incur costs of approximately \$9,252 for fiscal year 2025-26, \$3,440 for fiscal year 2026-27, \$2,336 for fiscal year 2027-28, \$2,009 for fiscal year 2028-29, and \$605 for fiscal year 2029-30.

Revenue Impact:

Staff notes, based on the most recent amendments, any solar installation post January 1, 2027 would be considered 'new construction' and would be assessed accordingly. The average cost of solar panels depends on several variables such as system size, location and equipment quality. The range seems to be between \$16,037 to \$23,037 for a complete system installation.

The average cost in the U.S seems to be about \$19,537 (after factoring in the federal solar credit. Based on this average, annual property tax for a homeowner would be around \$195 ($1\% \times \$19,537$). At the time of preparing this analysis, staff had no basis to speculate on the overall impact of the expiration of the January 1, 2027, exclusion. Hence any revenue impact is indeterminable. Regardless, this revenue impact is in accordance with the existing exclusion scheduled to sunset at the end of 2026, and not created by this bill.

Revenue Summary.

Indeterminable.

Qualifying Remark:

- This revenue estimate does not account for any changes in economic activity that may or may not result from the enactment of the proposed law.

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