

Memorandum

To: Honorable George Runner, Chair
Honorable Fiona Ma, CPA, Vice Chair
Honorable Jerome E. Horton, Third District
Honorable Diane L. Harkey, Fourth District
Honorable Betty T. Yee, State Controller

Date: November 30, 2018

From: 
David Yeung, Chief
County-Assessed Properties Division

Subject: **Board Meeting December 12, 2018**
Certificated Aircraft – Representative Period for 2019

I. Background

Revenue and Taxation Code section 1153 provides:

After consulting with the assessors of the counties in which aircraft of an air carrier normally make physical contact, the board shall designate for each assessment year the representative period to be used by the assessors in assessing the aircraft of the carrier.

Assessors' Handbook Section 570 (AH 570), *Assessment of Commercial Aircraft*, explains that the purpose of a *representative period* is to obtain air carrier operational data that can reasonably be expected to reflect the average activity of the carrier for the ensuing tax year. The Board is tasked with determining a period that best represents an air carrier's physical presence in California relative to any other period. The assessor is tasked with obtaining the relevant data to make the assessment. Historically, the Board has selected a one-week period near the lien date as the representative period for Scheduled Activity.

At its meeting in December 2017, the Board directed staff to initiate an interested parties process (IPP) with assessors and industry representatives of the various air carriers that operate in California to discuss the feasibility of transitioning to a 365-day representative period to allocate the assessed values of commercial aircraft.

At the Board's September 25, 2018 meeting, staff provided an update of the IPP.¹ Staff reported that assessors and industry requested a 60 day extension to see if parties could agree to a representative period for 2019, and possibly agree to a long term legislative solution. The Board agreed with the requested extension.

At an interested parties meeting held on November 7, 2018 parties were not able to come to an agreement for the 2019 representative period. Assessors assert that their studies indicate a week in the middle of October is most representative. Industry maintains a week in January is the most appropriate as it is the nearest to the lien date, and a change to a different week would be

¹ See Memorandum titled *Status Report of the Interersted Parties Process for the Certificated Aircraft – 365 -day Representative Period*, dated September 13, 2018.

burdensome due to additional computer programming and possibly recreating data not captured. In reference to a long term solution, parties reported that they agree a 365-day representative period would provide an accurate basis to measure certificated aircraft's presence in California; however, legislation will be needed to implement a streamlined allocation formula that would lessen the administrative burden for parties. Parties have expressed willingness to pursue such a legislative change.

II. Staff Recommendation – Phase-In Plan

Staff recommends that the Board adopt a multi-year phase-in plan (Phase-In Plan) to allow a transition to a 365-day representative period as follows:

- For the 2019 tax year, the Board adopts the week of January 13, 2019 through January 19, 2019 as the representative period.
- The Board recommends that staff continue the IPP to work with assessors and industry to draft a legislative proposal that provides for a 365-day representative period and implement a streamlined allocation formula.
- The Board adopts the week of October 13, 2019 through October 19, 2019 as the representative period for the 2020 tax year. This representative period is supported by a study staff conducted in 2017 and was presented as part of Issue Paper 17-005, Aircraft Representative Period, which was discussed at the Board's December 14, 2017 Board Meeting. If legislation passes in 2019 that provides for a 365-day representative period, the statute would be controlling in reference to the 2020 representative period.

III. Other Alternatives

Alternative 1: January Week: The Board could adopt the week of January 13, 2019 through January 19, 2019 as the representative period for 2019, and not recommend staff continue the IPP to work with assessors and industry to draft a legislative proposal that provides for a 365-day representative period and implement a streamlined allocation formula.

Alternative 2: October Week: The Board could adopt the period of October 14, 2018 through October 20, 2018 as the representative period for 2019.

Approved:



Dean R. Kinnee
Executive Director

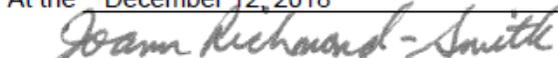
STATE BOARD OF EQUALIZATION

Board motion to approve staff recommendation failed.



At the December 12, 2018

Board Meeting



Joann Richmond-Smith, Chief
Board Proceedings Division