

ASSESSORS' HANDBOOK
SECTION 577

ASSESSMENT OF GENERAL AIRCRAFT

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CALIFORNIA STATE BOARD OF EQUALIZATION

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FOREWORD

Assessors' Handbook Section 577 (AH 577), *Assessment of General Aircraft*, is a complete rewrite of the March 1988 version of AH 577. This version of the handbook is reorganized and contains new or expanded topics. It includes some text from the original manual and material concerning subjects not covered in the previous handbook.

The rewrite of this handbook section was undertaken by the Board of Equalization's (Board) staff members of the Assessment Policy and Standards Division of the Property and Special Taxes Department in conjunction with the staff of the Property Taxes Division of the Legal Department and is the product of staff writing at the direction of the Board.

The objective of this handbook section is to give property tax appraisers, auditor-appraisers, and other interested parties an understanding of the issues concerning general aircraft for assessment purposes. It should serve as a guide and as an informational resource for the appraisal and assessment of this special, transitory type of personal property.

As part of the process of producing this manual, Board staff worked with members of the California Assessors' Association, industry representatives, and other interested parties to solicit input. The Board approved this section of the handbook on November 18, 2003.

Section 15606, subdivision (c), of the Government Code directs the Board to prescribe rules and regulations governing county assessors in the performance of their duties, and subdivision (f) provides that the Board shall issue instructions, such as those set forth in this handbook section. While regulations adopted by the Board are binding as law, Board-adopted assessors' handbook sections do not possess the force of law; rather they are advisory only. Nevertheless, courts have held that assessors' handbooks may be properly considered as evidence in the adjudicatory process.¹ The citations and law references in this publication were current as of the writing of the handbook section.

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November 2003

¹ *Coca Cola Co. v. State Board of Equalization* (1945) 25 Cal.2d 918; *Prudential Ins. Co. v. City and County of San Francisco* (1987) 191 Cal.App.3d 1142; *Hunt-Wesson Foods, Inc. v. County of Alameda* (1974) 41 Cal.App.3d 163.

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CHAPTER 1: INTRODUCTION

This handbook section pertains to the assessment and taxation of general aircraft as described in sections 5301 through 5456 of the Revenue and Taxation Code.² For purposes of property taxation, general aircraft are classified as personal property. The appraisal and assessment of general aircraft present challenges unique to this special type of property. These challenges arise because of the transitory nature of general aircraft, their various configurations and applications of use, the diversity of manufacturers, the varying condition of aircraft, and the specific types of avionics installed on the aircraft.

DEFINITIONS

PERSONAL PROPERTY

Personal property is defined by exception; *personal property* is all property except real estate.³ Section 104 defines real property, or real estate, as:

- (a) The possession of, claim to, ownership of, or right to the possession of land.
- (b) All mines, minerals, and quarries in the land, all standing timber whether or not belonging to the owner of the land, and all rights and privileges appertaining thereto.
- (c) Improvements.

AIRCRAFT

Revenue and Taxation Code section 5303 defines *aircraft* as:

... any contrivance used or designed for the navigation of or for flight in the air which has been flown at least once, other than a parachute or similar emergency safety device.

Aircraft does not include any of the following:

1. Air taxis, as defined in section 1154.
2. Aircraft operated exclusively by certified air carriers
3. Rockets or missiles

Ultra-lights, hang gliders, and hot air balloons are examples of less conventional flying contrivances which, once flown, are aircraft within the meaning of section 5303.

² All statutory references in this handbook refer to the Revenue and Taxation Code unless otherwise indicated.

³ Section 106.

AIR TAXI

Air taxi is defined in section 1154 as:

...aircraft used by an air carrier which does not utilize aircraft having a maximum passenger capacity of more than 30 seats or a maximum payload capacity of more than 7,500 pounds in air transportation and which does not hold a certificate of public convenience and necessity or other economic authority issued by the Civil Aeronautics Board of the United States, or its successor, or by the California Public Utilities Commission, or its successor.

This definition can be further broken down into scheduled and nonscheduled air taxis. Scheduled air taxis are treated for property taxation purposes as certificated aircraft, and nonscheduled air taxis are treated as general aircraft.

CERTIFICATED AIRCRAFT

Section 1150 defines *certificated aircraft* to mean:

... aircraft operated by an air carrier or foreign air carrier engaged in air transportation ... while there is in force a certificate or permit issued by the Civil Aeronautics Board of the United States, or its successor, or a certificate or permit issued by the California Public Utilities Commission, or its successor, authorizing such air carrier to engage in such transportation.⁴

For a complete discussion of this topics, see Assessors' Handbook Section 570, *Assessment of Commercial Aircraft*.

SITUS

Situs is the place where property is legally situated; the more or less permanent location of the property. A complete discussion of aircraft situs is included in Chapter 4.

HABITUALLY SITUATED

Rule 205, subsection (b), provides that general aircraft are assessable in the county where they are *habitually situated*.⁵ The location where an aircraft is habitually situated is the airport at which the aircraft is usually present when not in flight, i.e., the location where the aircraft spends most of its ground time. Thus, if an aircraft spends a substantial amount of time at multiple airports, it is *habitually situated* at the airport where it spends the most ground time.

⁴ The Federal Aviation Agency is the successor of the Civil Aeronautics Board of the United States.

⁵ All references to "rules" refer to sections in Title 18, Public Revenues, California Code of Regulations, commonly known as Property Tax Rules.

LIEN DATE

Sections 2192 (local roll) and 722 (Board roll) specify that the annual lien date is January 1. Personal property is assessable only if taxable on this date.⁶

CLASSIFICATION

Aircraft are included on the local unsecured roll as personal property and are assessable to the owner, whether the owner is an individual, a business, or otherwise. The tax rate for property on the unsecured roll is levied at the rate for the preceding year's secured roll within the same taxing jurisdiction.⁷ Since aircraft are classified as personal property, they are not subject to special assessments.

Unlike most types of personal property, there is no requirement that aircraft be used for business purposes to be assessable. However, not all aircraft are taxable. Some aircraft may be fully or partially exempt from property taxation due to the nature of their ownership or use. Preferential assessments and exemptions are discussed in Chapter 5.

ENTRY ON ASSESSMENT ROLL

An *assessment roll*, as defined in section 109, is the entire listing of taxable property within the county.⁸ The assessment roll consists of two parts: the secured roll and the unsecured roll. Aircraft should be included on the regular assessment roll and enrolled as unsecured property. Aircraft assessments should be placed in a separate section of the unsecured roll, rather than intermingling them with other unsecured assessments. Rule 252, subsection (a), provides that each local assessment roll shall contain:

... (14) In a separate section of the roll, the assessed value of any personal property for which tax revenues are subject to allocation in a manner different from that provided for general property tax revenues (e.g., general aircraft).⁹

Advantages of enrolling aircraft in a separate section on the unsecured roll include:

- Simplifying roll-searching for the assessor, tax collector, and others when a permanently assigned block of assessment numbers serves to identify aircraft.
- Making statistical data more readily available.
- Eliminating taxpayer confusion that often occurs when the value of an aircraft is included in the total personal property value of other types of taxable personal property.

⁶ Exceptions are manufactured homes and floating homes, although classified as personal property, are assessed in the same manner as real property. See section 229 and sections 5802 et seq.

⁷ California Constitution, article XIII, section 12.

⁸ The assessor prepares two separate rolls each year: the regular assessment roll and the supplemental assessment roll.

⁹ See sections 5451, et seq.

- Avoiding the necessity of adding the tax on the aircraft to an impound account when a lending institution pays the tax on the real property and secured personal property.

OVERVIEW OF THE FACTORS IN MAKING AN ASSESSMENT

The making of an assessment requires the determination of seven factors for that assessment to be proper and complete. These seven factors are especially important for personal property assessments because they can be difficult to determine and they often tend to change from lien date to lien date. The seven factors are *assessability*, *assessee*, *situs*, *description*, *classification*, *security*, and *value*.

Of the seven factors involved in making an assessment, the appraiser only needs to consider five of the factors with respect to aircraft. Two of the factors—*classification* and *security*—are already determined due to the nature of aircraft. That is, all aircraft are classified as personal property, and they should be listed on the unsecured regular assessment roll. A brief description of each of the other five factors is included below. A more thorough discussion of *description*, *value*, and *situs* are included in later chapters of this manual.¹⁰

ASSESSABILITY OF PROPERTY

Article XIII, section 1, of the California Constitution provides that all property is taxable unless otherwise exempt by the state constitution or the laws of the United States. The Legislature has the power to exempt personal property from taxation or to allow for differential taxation.¹¹ For example, section 224 provides:

The personal effects, household furnishings, and pets of any person shall be exempt from taxation. The phrase "personal effects, household furnishings, and pets" does not include boats, aircraft, vehicles, or personalty held or used in connection with a trade profession or business or pets so held or used.

An aircraft can be exempt from property taxation by reason of its ownership, use, and/or type. For example, an aircraft dealer's inventory is exempt by type (a discussion of business inventories and other exemptions is included in Chapter 5).

The assessor must first determine whether an aircraft is taxable (assessable) or exempt.¹² It is important for the appraiser to be aware of all possible aircraft exemptions in order to determine the assessability of the aircraft being appraised.

In determining assessability, an aircraft is not assessable until it has been flown once.¹³ An aircraft that is not presently in flyable condition but that still has an active registration with the FAA would be assessable. The maintenance of an active FAA registration would be evidence of

¹⁰ For a complete discussion of this topic, see Assessors' Handbook Section 504, *Assessment of Personal Property and Fixtures*, Chapter 1.

¹¹ Article XIII, section 2, California Constitution.

¹² For purposes of property tax assessment and this text, *taxable* and *assessable* are used synonymously.

¹³ Section 5303.

an intent to make the aircraft flyable at some future point in time. If the registration has been cancelled by registering the aircraft as scrapped or dismantled with the FAA, then the parts which were formerly an aircraft would be treated in the same manner as other personal property owned by the assessee.

Aircraft are assessable if they have situs in a particular county on the lien date, and the assessment must be made timely to be valid. Section 532 establishes a statute of limitations that affects the assessability of all taxable property, including aircraft. Unless the assessee intentionally evades taxation, an assessment must normally be made within four years of the assessment period in which the property escaped assessment or was underassessed.¹⁴

The assessor is required to assess all aircraft as of the lien date.¹⁵ For example, an assessee filing a statement with the assessor that declares ownership of an aircraft as of 12:01 a.m., January 1, 2003, will receive a tax bill for the fiscal year July 1, 2003 through June 30, 2004.

The following is an example of how the lien date affects the assessment of an aircraft.

EXAMPLE 1.1
LIEN DATE
<p>On lien date January 1, 2003, an aircraft owned by "A" is located in Sacramento. The assessee (owner "A") sells the aircraft to an airplane dealer (owner "B") on January 15, 2003. It becomes business inventory to owner "B" on that date.</p> <p>Owner "A" receives a tax bill for the fiscal year July 1, 2003 through June 30, 2004 for the assessment of the aircraft. Although owner "A" does not own the aircraft during the fiscal year that the bill covers, the bill is valid based on ownership on the lien date. Taxes on unsecured property are due on the lien date.</p> <p>If the facts were changed so that the dealer was the owner on the lien date and sold the aircraft to "A" on January 15, the aircraft would be exempt from property taxation as business inventory of owner "B," even through owner "A" owned the aircraft from January 15 through June 30, 2004.</p> <p>Generally, ownership on the lien date determines the taxability, situs, and assessee of an aircraft.</p>

Property taxes on the unsecured roll as of July 31 are payable in one installment, due no later than the August 31 following the lien date.¹⁶

¹⁴ Section 532.

¹⁵ Section 401.3.

¹⁶ Section 2922.

ASSESSEE

An aircraft is assessed to the person owning, claiming, possessing, or controlling it on the lien date—the *assessee*.¹⁷ Assessments are usually made in the name of the person listed as the owner of record on the lien date, based on the official documentation or registration for the aircraft.

Owners who sell their aircraft after the lien date and prior to the fiscal year that the tax bill covers are still liable for the taxes imposed.¹⁸ Although the assessment is based on the value of the aircraft on the preceding lien date, the tax bill received is for the ensuing fiscal year. Thus, in the sale of an aircraft, any proration of taxes is left to the parties involved.

SITUS

Situs is the place where property is situated for tax purposes. Since aircraft are taxed where they are situated on the lien date, situs is an essential factor in making an assessment of an aircraft. Situs is seldom a problem for property that remains in one location, as in the case of real property, but many problems are encountered by the appraiser when determining the proper situs of movable property, such as an aircraft.

A complete discussion of *situs* is included in Chapter 4.¹⁹

DESCRIPTION OF PROPERTY

An accurate assessment requires a *description* of the property. The primary source of descriptive information for the appraiser is on annual forms filed by aircraft owners. The forms request information needed by the appraiser to make an annual review and accurate assessment of the aircraft.

A more detailed discussion regarding *description* of the property and aircraft forms are included in Chapter 2.

VALUE OF PROPERTY

For purposes of California property taxation, aircraft are valued at their fair market value every year as of the lien date. An appraiser's most important function is to determine the value of the aircraft. The terms "fair market value" and "full cash value" have the same meaning in property tax law and in the context of this manual.²⁰

A more detailed discussion of *value* is presented in Chapter 3.

¹⁷ Section 405.

¹⁸ *Estate of Backesto* (1923) 63 Cal.App. 265.

¹⁹ For a complete discussion of this topic, see Assessors' Handbook Section 504, *Assessment of Personal Property and Fixtures*, Chapter 3.

²⁰ Section 110.

CHAPTER 2: DISCOVERY AND DESCRIPTION

DISCOVERY

Developing a program for the discovery of information regarding taxable aircraft and the verification of new and existing information is important to ensure accurate and valid assessments. Although the means of discovery may differ from county to county, the primary sources of information for aircraft are:

- Airport owners' and operators' reports
- Field canvassing
- Field appraisers
- Federal Aviation Agency (FAA) registration lists
- Referrals from other counties

AIRPORT OWNERS' AND OPERATORS' REPORTS

Section 5366 requires owners and operators of public and private airports to annually supply the assessor with lists of aircraft based at their airports. This information is provided on Form BOE-577-B, *List of Aircraft*.

The airport owners are required to provide to the assessor (1) the owner's name and address and (2) the FAA number, make, model, and year of manufacture for each aircraft. This information is extremely useful to the assessor in locating all aircraft situated in the county.

FIELD-CANVASSING

Field-canvassing is a technique that involves physically viewing aircraft where they are located. Information obtained by the appraiser should be entered into the aircraft file to ensure that an accurate assessment is made without incurring any duplication. The FAA number should always be obtained, along with all other available information about the aircraft, e.g., situs, make, model, year of manufacture, general condition, flight hours since last overhaul, and ownership. The appraiser should conduct field-canvassing near the lien date.

Since ultralights, hang gliders, and power hang gliders do not have an FAA number, they pose a significant discovery problem for assessors. Staff should be made aware of this problem and discovery programs should be established, such as field-canvassing airports, landing strips, and other areas where these aircraft are known to be situated.

FIELD APPRAISERS

General aircraft may also be discovered by field appraisers while conducting appraisals of other properties. Any aircraft located that are not listed in the assessors' files should be investigated to determine their taxable status.

FEDERAL AVIATION AGENCY

County assessors can obtain registration information from the FAA master registration program through the FAA Web site (www.FAA.gov). Once on the FAA Web site, the registry information can be accessed by:

- Clicking on *General Aviation*
- Under the column *Services*, click on *Query Aircraft Database*
- Click on *Link to Perform Query*
- Click on *State and County*
- Select *California*
- Select appropriate *County*

The FAA updates the registration list on a monthly basis to show any changes in ownership of aircraft based in California. The information provided includes a coded description of each aircraft, and the zip code number and the name of the registered owner.

REFERRAL FROM OTHER COUNTIES

Often county assessors receive information from a taxpayer indicating that an aircraft has been relocated to another county. This information can be useful in determining accurate situs. Cooperation between county assessors is essential for the proper assessment of all aircraft within the state. Without it, many aircraft would escape assessment and accurate information regarding the description, ownership, and situs of such aircraft could be lost (see Change in Situs section in Chapter 4 for a further discussion).

An assessor frequently receives information indicating that an aircraft has been taken to another county or was actually in a different county than was initially reported. This information should be forwarded to the assessor gaining jurisdiction, along with all other information that may be available, such as aircraft description and previous assessed values.

It is important that the county receiving the information follow through to the point of making an assessment. If neither the aircraft nor the aircraft owner can be located, the county originating the information should be notified so that further action can be taken to prevent an escape assessment. The originating county should send a notice to the aircraft owner's last known address to attempt to establish the exact location of the aircraft.

DESCRIPTION

In order for an appraiser to make a comprehensive review and assessment of an aircraft, a detailed and accurate description of the aircraft is essential. Aircraft statements and other aircraft forms used by the assessor provide vital information.

COUNTY AIRCRAFT STATEMENT

Assessors send aircraft statements to owners requesting information on their aircraft. Section 5365 provides that:

Upon request of the assessor of the county in which an aircraft is habitually based, the owner shall file with him a statement setting forth the make, model, and year of manufacture of the aircraft.

Assessors use these statements to gather information and to ultimately determine an assessable value for aircraft. Furthermore, if the assessor requires that these forms be completed by aircraft owners annually, they are often very useful in a timely determination of when owners have installed new avionics on an aircraft or when an aircraft has undergone an overhaul. The aircraft statement should be mailed to the taxpayer for completion as close to the lien date as possible.

If any person who is requested by the assessor to file a statement pursuant to section 5365 fails to file such statement by the time specified by the assessor, a penalty of 10 percent of the market value of the unreported aircraft shall be added to the value of the aircraft on the current roll.²¹ While the statute does not specify the length of time the assessor should allow to file the aircraft statement before imposition of the penalty, it is recommended that the deadline for filing without a penalty be 30 days after the mailing date or April 1 (as for other property statements), whichever is later.

While section 5365 only mandates that the assessee provide the assessor with the make, model, and year of manufacture of the aircraft, it is good policy for the assessor to request all pertinent information from an aircraft owner annually, since usually assessees will provide the information requested by the assessor. However, the assessor should remember that the section 5367 penalty cannot be imposed on an aircraft owner for not supplying information requested by the assessor beyond the requirements of section 5365.

A sample of an aircraft statement is included in Appendix A.²²

OTHER AIRCRAFT FORMS

Many county assessors use the *Vessel or Aircraft Form* (BOE-576-A) to enhance their aircraft assessment program. The form can be used for the following purposes:

1. To notify the owner of record of the assessor's proposed assessed value of an aircraft for the forthcoming year.
2. To obtain information on transfers of aircraft.
3. To locate an aircraft.

²¹ Section 5367.

²² The Board does not prescribe a property statement for general aircraft.

The *Vessel or Aircraft Form* should be mailed to all owners of aircraft as shown on the assessor's records prior to the lien date each year.

In addition, the *Aircraft Form* (BOE-577-AHH) is a double postcard inquiry form that is folded and mailed to known or probable aircraft owners at any time of the year. Upon receipt of the card, the aircraft owner should detach the half containing his or her name and address, and return the preaddressed remaining half with the information requested by the assessor. This form can be used to obtain the following information:

1. Verification of the registered owner's name and address.
2. Specific description of the aircraft, e.g., FAA number, make, model, and equipment installed.
3. Detailed description of the engine, e.g., make, model, year built, and air hours.
4. Sales information, e.g., purchase price and date of purchase.

CHAPTER 3: VALUATION OF GENERAL AIRCRAFT

The following is a brief overview of basic appraisal terms and accepted appraisal practices. For a more in-depth discussion of appraisal practices and the approaches to value property, see Assessors' Handbook Section 501, *Basic Appraisal*; Assessors' Handbook Section 502, *Advanced Appraisal*; and Assessors' Handbook Section 504, *Assessment of Personal Property and Fixtures*.

VALUE CONCEPT

The fundamental principles of appraisal apply to the valuation of aircraft as they do to any other personal or real property. The assessor should consider the three primary approaches to value—cost, comparative sales, and income—when determining the market value of an aircraft. Although the approaches to value are similar, the assessment of aircraft and other personal property differ significantly from real property in that the market value of an aircraft must be estimated on the lien date every year. Unlike most real property, the assessment of aircraft is not governed by the base year value limitations of article XIII A of the California Constitution (commonly known as Proposition 13).

The fair market value of aircraft, like all other types of property, is defined in section 110, subdivision (a):

... "full cash value" or "fair market value" means the amount of cash or its equivalent that property would bring if exposed for sale in the open market under conditions in which neither buyer nor seller could take advantage of the exigencies of the other, and both the buyer and the seller have knowledge of all the uses and purposes to which the property is adapted and for which it is capable of being used, and of the enforceable restrictions upon those uses and purposes.

APPROACHES TO VALUE

Property Tax Rule 3, *Value Approaches*, discusses five approaches to value:

1. Comparative sales approach
2. Stock and debt approach
3. Replacement or reproduction cost approach
4. Historical cost approach
5. Income approach

The replacement or reproduction cost, comparative sales, and income approaches are applicable to personal property, including aircraft. Although these three approaches to value should be

considered, the use of all three may not always be appropriate. The nature of property, its market, and the availability of data will normally indicate which approach(es) is most appropriate. This is supported by Rule 3, which states in part:

In estimating value as defined in section 2, the assessor shall consider one or more of the following [approaches to value], *as may be appropriate for the property being appraised*: (Emphasis added.)

Often only one approach is feasible. The appraiser should analyze all available information to determine the most applicable and reliable approach. The courts recognize this fact and the California Supreme Court has stated that:

Assessors generally estimate value by analyzing market data on sales of similar property, replacement costs, and income from the property, and since no one of these methods alone can be used to estimate the value of all property, the assessor, subject to requirements of fairness and uniformity, may exercise his discretion in using one or more of them.²³

COST APPROACH

One variant of the cost approach, the *replacement cost approach*, estimates the value of an asset or a group of assets based on the assets' original or historical cost, adjusted to account for changes in value since purchase and/or installation. It is the method of valuation most frequently relied on when no reliable sales data are available. Replacement cost new, in the case of a new or nearly new aircraft and when considered along with normal depreciation, will be a strong indication of market value in the case of aircraft that continue to be manufactured. As aircraft grow older, however, an estimate of depreciation is less predictable and the accuracy of this approach diminishes.

The cost approach method typically used by assessors estimates the value of an aircraft based on its original or historical cost.²⁴ When an aircraft of any type is new, this approach may be a good representative of market value, provided the original cost was an arm's-length open-market transaction representing fair market value.²⁵ In the case of older aircraft, the cost approach is generally not used, and nationally published value guides that provide annual market values based on a large collection of sales data become a more feasible method of establishing a value for aircraft.

Unique aircraft, kit aircraft, and aircraft built by little known manufacturers should be valued by the cost approach unless reliable sales data are available. Such aircraft previously owned can be accurately valued by the comparative sales approach; however, the appraiser must be familiar with the aircraft used as comparisons. In most cases, the appraiser will have to make a physical

²³ *De Luz Homes, Inc. v. County of San Diego* (1955) 45 Cal.2d 546, 563-564.

²⁴ Rule 6 uses the terms *historical cost* and *original cost* synonymously—the cost of the property when new. For purposes of this manual, the terms are used as defined in Rule 6.

²⁵ Section 110.

survey of the subject aircraft and compare it to recent sales of similar aircraft. Finding comparable sales of unique aircraft may be difficult.

COMPARATIVE SALES APPROACH

The *comparative sales approach* may be defined as an approach that uses direct evidence of the market's opinion of value of a property. In this approach, the appraiser estimates the market value of the subject property by comparing it to similar properties that have recently sold. In addition to actual sales, the appraiser may consider listings, options, and the opinions of owners, real estate agents, and other appraisers as to the selling prices that comparable properties might command. The comparative sales approach is based on the premise that the fair market value of a property is closely and directly related to the sales prices (under the conditions of fair market value) of comparable, competitive properties.

Sale prices of comparable properties provide an indication of what the market is willing to pay for that type of property at a specific time. For personal property such as aircraft, nationally published value guides that reflect the going market price for comparable aircraft can be used as the basis for determining market value when no direct sale comparables in the subject's market area are found. Adjustments should be made to the base price given in a value guide when the condition of the aircraft or the local market merits such action.

In January 1997, in fulfillment of the mandates in section 5364, the Board held a public hearing and officially adopted two aircraft price guides for assessors to use when determining the assessment of general aircraft (see discussion on value guides later in this chapter). In addition, the Board advised assessors to use 90 percent of the retail price listed when using the aircraft value guides as the starting point for the appraisal of general aircraft.

In comparing the value guides to other information (such as actual sales of aircraft and opinions from dealers and assessors), Board staff found the retail values listed in the guides were, on the average, slightly but consistently higher when compared to fair market value. Airplane dealers commonly sell aircraft at the retail prices, but private party transactions typically indicate lower prices. The difference in price could be due to several factors, such as a dealer detailing an aircraft so it is actually in above-average condition, a dealer offering a warranty on the aircraft, or a dealer offering free flying lessons or other services with the aircraft.

Consequently, the listed retail values shown in the value guides should be reduced by 10 percent to account for dealer incentives and reconditioning to value an aircraft in *average* condition on the lien date. Other adjustments that may be appropriate include consideration of the:

- Overall condition of the aircraft
- Equipment installed

- Hours since a major engine overhaul
- Total airframe hours

Another adjustment to consider is the location of the subject aircraft. The base price shown in the guides may reflect values in a specific region, and the appraiser should adjust the value for regional differences as suggested in the guide. Sales tax is not included in the values shown in any of the value guides. The general rule in determining market value is that where price is the basis of value, sales/use tax, freight, and installation cost are elements of that value, and should be included in the estimate of market value.²⁶

There are exceptions to the general rule. Equipment rented to federal instrumentalities and aircraft used by common carriers (neither of which are subject to sales tax), for example, are valued without sales tax as an element of value. The reason in both cases is that the consumer (the federal government or the air carrier) is never liable for sales tax on purchases of such equipment. Consequently, the assessment of such property should not include sales tax, unless or until the property is put to private use or rented to a private party.²⁷

The addition of sales tax and freight charges to the list price of an aircraft is consistent with the appraisal approach that gives consideration to the consumer's total cost in arriving at market value. Since an owner has the sales tax and freight (transportation) information available from the invoice, the owner should be requested to include this information on the county aircraft statement.

When reliable comparables are available, whether from sales found in the local marketplace, published value guides, or other sources, the comparative sales approach may be preferable to other value approaches. The following is an example where such sales are available, and the aircraft's value is determined using the comparative sales approach.

²⁶ *Xerox Corp. v. Orange County* (1977) 66 Cal.App.3d 746.

²⁷ See the Sales and Use Tax Law for more information regarding sales tax requirements.

EXAMPLE 3.1**USE OF THE COMPARATIVE SALES APPROACH**

Ben Airworthy purchased a 1970 Cessna 180H in 1993 for \$52,750. On the 2003 lien date, the aircraft was hangared in Sacramento County and was assessable. The following information was available to and gathered by the appraiser.

- The assessee is planning to sell the aircraft.
- The assessee's golf partner offered to purchase the aircraft for \$54,000.
- A similar aircraft, located in Florida, is advertised in *Trade-A-Plane* for \$115,500.
- An inspection of the aircraft, flight log, maintenance log, and conversations with the assessee indicate the following:
 - ▶ Aircraft has low airframe hours (3,500)
 - ▶ Engine hours are excessive (1,200)
 - ▶ Needs exterior paint
 - ▶ Needs complete new interior
 - ▶ Equipped with floats from factory
 - ▶ Average avionics with added DME (Distance Measuring Equipment)
- Research from the Winter 2002/2003 Edition of *Aircraft Bluebook-Price Digest* indicates a factory new standard price of \$65,000, an average-equipped price of \$69,000, and an average retail price of \$80,000.
- The assessee argues that the aircraft's value is \$54,000.

Using the comparative sales approach to value, what is the estimated taxable value of the aircraft?

The assessee's estimate of value of \$54,000 does not represent market value because it is only an offer from an acquaintance, not an actual sale, nor was the aircraft exposed for sale in the open market. The aircraft advertised in *Trade-A-Plane* is not market value because it is only an offer to sell and not an actual sale.

The appraiser in this instance would use as a starting point the average retail price of \$80,000 found in the Winter Edition of the *Aircraft Bluebook-Price Digest*, reduce that value by 10 percent,²⁸ and then add the appropriate sales tax (in this example, 7.75 percent for Sacramento County). The adjustments for airframe, engine time, paint, interior, floats, and additional avionics would be made as follows per guidelines in the *Bluebook*:

(Continued)

²⁸ See discussion earlier in this chapter regarding 10 percent reduction.

EXAMPLE 3.1 (Contd.)

<u>Average Retail</u>	<u>Item Description</u>
\$80,000	1970 180H (average retail price in <i>Bluebook</i>)
-8,000	Deduct 10% (SBE adjustment from <i>Bluebook</i> price)
135	*Add for low airframe hours (+2% for late model)
-4,748	*Deduct for high engine time
-4,000	*Deduct for needing new exterior paint
-4,000	*Deduct for needing new interior
8,640	*Add for floats (Aqua Float Co. Model 3190 Pontoons)
<u>1,125</u>	Add for DME (Bendix/King KDM 700A)
\$69,152	Subtotal
<u>5,359</u>	Add 7.75% (sales tax for Sacramento County)
<u>\$74,511</u>	Estimated total value of aircraft

The appraiser would estimate the value of the aircraft for the January 1, 2003 lien date at \$74,515.

*Calculations:

Low airframe hours: 107 hr/yr. 114 hr/yr. = 94% low time airframe x 2%

High engine time: Time Between Overhauls 1500, 750 mid, 1200-750 = 450 (450 x \$10.55/hr = \$4747.50)

New paint: \$8,000 172,177 est. @ ½ cost

New interior (re-rag): \$8,000 4 seat est. @ ½ cost

Floats: Model 3190 Pontoons – 40% of \$28,800 @ ½ cost

INCOME APPROACH

The income approach to value includes any method of converting an anticipated income stream into a present value estimate. The income approach generally is less effective in valuing aircraft for several reasons:

- A business dependent upon the use of an aircraft may be shown to benefit from the aircraft because of their use, but this is unlikely to be an indication of value for any particular aircraft.
- One model of an aircraft may have different full-time commercial or pleasure applications, and the income approach might indicate different values for the same model, depending upon its use.
- The income approach relies on information concerning income and expenses on the aircraft being valued. To determine the capitalization rate of the aircraft, net income

information from the operations of other similar aircraft sold would also be required. Cooperation from owners regarding such data is often limited. Furthermore, there are no published sources with regard to market income information on aircraft. If the appraiser does collect income data, he or she must then carefully analyze it to determine if the information is typical of the market for the subject aircraft.

SOURCES OF INFORMATION

When using the comparative sales approach to value aircraft, data sources include published value guides and the Internet.

VALUE GUIDES

In compliance with section 5364, the Board has approved the *Aircraft Bluebook-Price Digest* as the primary guide for valuing general aircraft, and the *Vref Aircraft Value Reference* as an alternate for aircraft not listed in the *Aircraft Bluebook*.²⁹ The Winter Edition of the *Aircraft Bluebook* and Volume I of the *Vref Aircraft Value Reference* are recommended. There is an electronic version of the *Aircraft Bluebook-Price Digest* available by subscription at aircraftbluebook.com.

As discussed earlier, the values listed in the guides should be reduced by 10 percent to account for dealer incentives and reconditioning to provide reasonable estimates of market value for aircraft in average condition on the lien date. The retail values listed in *Vref* and the *Aircraft Bluebook* are for a fully airworthy aircraft with average equipment for the model and in average condition considering the aircraft's age and likely use. For any given model, there are extreme variations in value depending on the equipment installed in the aircraft and the amount of time (usually operating hours) before a costly major engine overhaul is required. As a result, in order to achieve fair market value, it is necessary to review the equipment and condition of each aircraft and make appropriate adjustments to the basic value indicated by the guide. Appraisers should make appropriate adjustments for, among other things, overall condition, equipment, hours since the last major overhaul, and total hours.

Sometimes appraisers obtain valid information, such as recent sales, that provide more accurate value indicators for a specific aircraft than the data in the value guides. Appraisers should make any adjustments to the base value in the guides as necessary to achieve fair market value assessments of aircraft. However, variances from the values indicated by use of the recommended value guides should be well documented in the assessor's records.

OTHER SOURCES OF INFORMATION

The Internet can be a useful source of information when establishing the market value of aircraft. Various Web sites show current listings of aircraft for sale. This information can provide the appraiser with general marketplace information.

²⁹ Public hearing conducted by the State Board of Equalization, January 10, 1997.

In addition, listings may be found in numerous flying magazines. Some of these magazines also have classified advertisements on the Internet.

MANDATORY AUDIT

Revenue and Taxation Code section 469 provides in part:

In any case in which locally assessable trade fixtures and business tangible personal property owned, claimed, possessed, or controlled by a taxpayer engaged in a profession, trade or business has a full value of four hundred thousand dollars (\$400,000) or more, the assessor shall audit the books and records of that profession, trade, or business at least once each four years....

General aircraft owned, claimed, possessed, or controlled by a taxpayer engaged in a profession, trade, or business are subject to the provisions of section 469 and should be considered when determining the \$400,000 threshold for a mandatory audit. When conducting an audit of a business that includes an aircraft, the auditor should ensure that sufficient information for the aircraft is obtained so that an accurate assessment can be enrolled, e.g., FAA number, make, model, year of manufacture, engine hours, equipment, condition.

REASSESSMENT DUE TO MISFORTUNE OR CALAMITY

If an aircraft has been damaged or destroyed by a misfortune or calamity, the owner may request that the aircraft be reassessed downward to reflect its current value in the damaged condition. This reassessment procedure is available only in counties that have adopted an ordinance pursuant to section 170. Subdivision (a) of section 170 states in part:

... the board of supervisors may, by ordinance, provide that every assessee of *any taxable property*, or any person liable for the taxes thereon, whose property was damaged or destroyed without his or her fault, may apply for reassessment of that property.... (Emphasis added.)

Accordingly, aircraft damaged or destroyed by a misfortune or calamity would be subject to the relief provisions of this section, assuming the county board of supervisors has adopted an authorizing ordinance.

ASSESSMENT APPEALS

General aircraft are governed by the same statutes and regulations for the assessment appeals process as all other property use types that are subject to local property taxation.³⁰ Aircraft owners must file an *Application for Changed Assessment* form³¹ with the local board of

³⁰ Sections 1601 et seq.; Rules 301 through 326.

³¹ Form BOE-305-AH.

equalization or assessment appeals board, within the appropriate statutory timeframe,³² to initiate the equalization process.

Specific procedures and guidelines for the local assessment appeals process are contained in the *Assessment Appeals Manual* published by the Board.

³² Sections 170, 1603, and 1605.

CHAPTER 4: SITUS

Situs, the place where property is legally situated, is one of the essential factors of a valid assessment. Section 404 governs the assessment jurisdiction for property and provides that:

All taxable property, except State assessed property, shall be assessed by the assessing agency of the taxing agency where the property is situated.

Aircraft are classified as personal property, are mobile, and frequently have no single fixed location. One of the most important duties of the appraiser is to determine an aircraft's tax situs. For property tax purposes, an aircraft's situs is established on the lien date. On the lien date, aircraft with situs in California are assessable by the taxing agency of the jurisdiction in which they are habitually situated.

Permanent versus temporary situs must be considered when determining taxable situs for property taxation purposes. Article XIII, section 14, provides that:

All property taxed by local government shall be assessed in the county, city, and district in which it is situated.

This constitutional provision does not refer to the temporary location of aircraft but to its permanent situs. *Situated* means that property has acquired tax situs and, thus, the taxation of an aircraft must be based on the fact that it is to some extent kept or maintained in California, rather than here casually or in transit.

The guidelines for situs of aircraft depend on aircraft type. For assessment purposes, aircraft are typed or classified as general aircraft, certificated aircraft, or air taxis. This handbook focuses on the issues affecting situs of general aircraft.

GENERAL AIRCRAFT

The rules of situs apply to general aircraft as they do to other personal property. General aircraft are assessable at the location where the aircraft is *habitually* situated. When an aircraft has tax situs in California and divides its time between two or more airports in California, situs becomes determinable based on a "time test," but no apportionment is necessary. Rule 205, subsection (b), states in pertinent part:

... An aircraft that spends a substantial amount of ground time at each of two or more airports has its tax situs at the airport where it spends the greatest amount of ground time.

Thus, where an aircraft does not remain in one location in California, it is assessable in the place where it spends the greatest amount of ground time.³³

³³ *GeoMetrics v. County of Santa Clara* (1982) 127 Cal.App.3d 940.

If an aircraft establishes tax situs both in California and outside California, apportionment is necessary between California and other jurisdictions under the rulings established in *Ice Capades, Inc. v. County of Los Angeles* and *GeoMetrics v. County of Santa Clara*.³⁴

The interpretation of tax situs is that property must have "such contacts as confer jurisdiction to tax."³⁵ Due process requires that the nature of the contacts sufficient to support a state's power to tax must provide the opportunities, benefits, or protection afforded by the state.³⁶ For movable personal property such as aircraft,³⁷ the amount and nature of the contact of property and its owner with a state necessary to establish tax situs is a factual determination.³⁸

In general, relevant factors to be considered include the domicile of the aircraft owner, the aircraft's length of time in the state, the owner's intent to bring the aircraft into the county, and the owner's contact with the state. The court held that these were the determinative factors in *Ice Capades*.

AIRCRAFT OPERATED SOLELY IN CALIFORNIA

For aircraft maintained and operated solely within California, such aircraft have an established tax situs in California, regardless of the domicile of the aircraft owner, and the appropriate county in which the aircraft is habitually situated has assessment jurisdiction without apportionment.³⁹ Aircraft having mere transitory contact in California do not have an established tax situs in this state and, therefore, are not subject to taxation.

Example 1

An aircraft owner has domicile in Nevada, and the aircraft owned has established a tax situs in California for 100 percent of the year. Regardless of where the owner of the aircraft is domiciled, the California county where the aircraft is habitually situated would enroll 100 percent of the value of the aircraft.

OWNER DOMICILED IN CALIFORNIA

When an aircraft owner is domiciled in California and the aircraft (1) has established a tax situs in California, (2) has established a tax situs in another state, states, or foreign country, (3) operates in other states or foreign countries but does not establish tax situs in those states or foreign countries, and (4) is predominantly located in California during the year, the county may assess portions of value reflecting the portion of the year that the aircraft is present in California and the portion of the year that the aircraft operates in the states or foreign countries where the aircraft has not established tax situs.

³⁴ *Ice Capades, Inc. v. County of Los Angeles* (1976) 56 Cal.App.3d 745; *GeoMetrics v. County of Santa Clara* (1982) 127 Cal.App.3d 940.

³⁵ *Zantop Air Transport, Inc. v. County of San Bernardino* (1966) 246 Cal.App. 2d 433, 437.

³⁶ *Ice Capades, Inc.*, *supra* at 752.

³⁷ Rule 205, subsection (a).

³⁸ *Ice Capades, Inc.*, *supra* at 753.

³⁹ *Ice Capades, Inc.*, *supra* at 755.

PART II – CONTINUED

List additional equipment and modifications:

PART III – AIRCRAFT LOCATION

Airport _____
 Street Address _____
 City, State, Zip _____
 Date of Arrival _____
 Fixed Base Operator _____
 Street Address _____
 City, State, Zip _____
 Telephone Number _____

PART IV – SOLD OR PERMANENTLY REMOVED FROM SKYLER COUNTY PRIOR TO JANUARY 1

SOLD TO		PERMANENTLY REMOVED	
NAME		DATE OF REMOVAL	
ADDRESS		LOCATION	
CITY, STATE, ZIP		AIRPORT NAME	
TELEPHONE NUMBER		ADDRESS	
SALES PRICE		CITY, STATE, ZIP	
DATE OF SALE			

PART V – TYPE OF USAGE

Pleasure **Please provide business name and address if different**
 Rental **from FAA registered owner.**
 Charter Business Name _____
 Business Street Address _____
City, State, Zip _____

Additional Remarks – Include condition of aircraft (be specific, e.g., condition of paint and interior)

I declare under penalty of perjury that the foregoing is true, correct, and complete to the best of my knowledge and belief.

Signature _____ Date _____

(2) Property being used by its owner for any purpose not directly associated with the prospective sale or lease of that property.

(3) Property actually leased or rented on the lien date.

(4) Property which has been used by the holder prior to the lien date, even though held for lease on the lien date.

(5) Property intended to be used by the lessor after being leased or during intervals between leases even though held for lease on the lien date.

(6) Property in the hands of a lessor who, with intent to enjoy the benefits of the inventory exemption, had leased the property for a period that expired shortly before the lien date but who renewed, extended or renegotiated the lease shortly thereafter.

(c) SERVICE ENTERPRISES. Property held by a person in connection with a profession which is primarily a service activity such as medicine, law, architecture or accountancy is not "business inventories" held for sale or lease even though such property may be transferred to a patient or client incidental to the rendition of the professional service. Property held by enterprises rendering services of a nonprofessional type such as dry cleaners, beauty shop operators and swimming pool service companies is to be regarded as "business inventories" held for sale if such property is delivered as an item regularly included in the service.

(d) REPAIRERS AND RECONDITIONERS. Persons engaged in repairing or reconditioning tangible personal property with the intent of transferring parts and materials shall be regarded as holding said parts and materials as "business inventories."

(e) AGRICULTURAL ENTERPRISES. Animals, crops and feed held primarily for sale or lease in the ordinary course of business are included in the term "business inventories," as are animals used in the production of food or fiber and feed for such animals.

(1) "Animals used in the production of food and fiber" includes all animals customarily employed in the raising of crops or for the feeding, breeding and management of livestock, or for dairying, or any other confined animals whose products are normally used as food for human consumption or for the production of fiber useful to man. Excluded are animals held by an owner or lessee principally for sport, recreation or pleasure such as show animals, horses held for racing or horses and other animals kept as pets.

(2) The term "crops" means all products grown, harvested, and held primarily for sale, including seeds held for sale or seeds to be used in the production of a crop which is to be held primarily for sale. It does not include growing crops exempted pursuant to Article XIII, section 3(h), of the California Constitution or fruit trees, nut trees, and grapevines exempted by section 223 of the Revenue and Taxation Code.

(3) The term "food" means property normally considered as food for human consumption.

(4) Feed for animals held primarily for sale or lease or for animals used in the production of food or fiber constitutes "business inventories" subject to exemption. It includes every type of natural-grown or commercial product fed to animals except medicinal commodities intended to prevent or cure disease unless the medicinal commodities are purchased as a component part of feed for such animals.

History: Adopted November 20, 1968, effective December 21, 1968.

Amended January 7, 1970, effective February 8, 1970.

Amended January 6, 1971, effective February 18, 1971.

Amended February 5, 1975, effective March 20, 1975.

Amended August 20, 1980, effective November 14, 1980.

Amended October 10, 1984, effective February 21, 1985.

Amended January 5, 2000, effective July 26, 2000.

Amended and effective April 6, 2001.

Rule 134. HOUSEHOLD FURNISHINGS, PERSONAL EFFECTS, AND PETS EXEMPTION.

Reference: Section 224, Revenue and Taxation Code.

Household furnishings, personal effects, and pets, as defined in section 224 of the Revenue and Taxation Code, owned by any individual but not held or used in connection with a trade, profession, or business or for the production of income are exempt from ad valorem taxation.

Household furnishings are personal property and include such items as furniture, appliances, rugs, cooking utensils, and art objects. Not included within the definition of household furnishings are items classified as improvements, such as wall-to-wall carpeting, built-in ovens, ranges, and dishwashers.

Personal effects is a category of personal property which includes such items as money kept for household use, clothing, jewelry, tools, hobby equipment and collections, and other recreational equipment. By statute, it does not include boats, aircraft and vehicles.

The term "pets" includes any animals (e.g., fish, birds, insects, cats, dogs, horses) held for noncommercial purposes and not as an investment. A show animal that is awarded ribbons or cups would not be considered as held in connection with a trade, profession, or business. However, when the animal's proficiency gains monetary or other awards of substantial value, or when the animal is used in the production of offspring that are sold or exchanged for items of substantial value, it is no longer considered a pet entitled to the exemption.

Storage in a warehouse or other place of safekeeping in and of itself does not alter the status of such property. No claim for exemption need be filed by an eligible owner, and no entries need be shown on the assessment roll.

History: Adopted January 8, 1969, effective February 12, 1969.
Amended August 6, 1969, effective September 11, 1969.
Amended December 12, 1969, effective January 11, 1970.
Amended February 17, 1972, effective April 2, 1972.

Rule 138. EXEMPTION FOR AIRCRAFT BEING REPAIRED, OVERHAULED, MODIFIED OR SERVICED.

Reference: Sections 220, 1150, 1151, 1152 and 1154, Revenue and Taxation Code.

(a) **SCOPE OF EXEMPTION.** Any aircraft, certificated or noncertificated, which is in California on the lien date solely for the purpose of being repaired, overhauled, modified, or serviced is exempt from personal property taxation. Aircraft operated intrastate in or interstate into California and aircraft normally based in California do not qualify for exemption.

(b) **QUALIFYING CERTIFICATED AIRCRAFT.** Aircraft that qualify for exemption include certificated aircraft that have been taken out of revenue service by an air carrier:

- (1) for the purpose of being repaired, overhauled, modified, or serviced; and,
- (2) with an executed contract or a specific written plan for the purposes described in subsection (b)(1).

Aircraft in California solely for the purposes described in subsection (b)(1) include any incidental and attendant storage.

(c) **INTERSTATE OPERATION.** Certificated aircraft that have been taken out of revenue service under the provisions of subsection (b) above as of the lien date are not aircraft operated interstate into California for purposes of this rule.

(d) **THE VALUATION OF CERTIFICATED AIRCRAFT.** Certificated aircraft, located in or outside of the state, that have been taken out of revenue service under the provisions of subsection (b) above, shall not be valued pursuant to

section 401.15 of the Revenue and Taxation Code nor included in the allocation formula of section 1152 of the Revenue and Taxation Code and rule 202, until the lien date next following the date that such aircraft are returned to revenue service.

(e) **REPORTING BY AIR CARRIERS.** When filing business property statements, air carriers shall indicate on the property statement or an attachment to the property statement those certificated aircraft which qualify for exemption pursuant to this section. Air carriers shall maintain records adequate to verify that these aircraft qualify for exemption.

History: Adopted November 28, 201 as emergency regulation, effective December 14, 2001.
Adopted March 27, 2002 as permanent regulation, effective May 20, 2002.

Rule 205. MOVABLE PROPERTY.

Reference: Article XIII, Section 14, California Constitution.

(a) **GENERAL.** Movable property is all property which is intended to be, and is, moved from time to time from one location to another. Such property may be in-transit, consigned, or leased, and under such circumstances its situs is to be determined by reference to Section 203 or 204 of this chapter.

Movable property has situs where located on the lien date if it has been in the county for more than 6 of the 12 months immediately preceding the lien date and if it is to remain in or be returned to the county for any substantial period during the 12 months immediately succeeding the lien date. 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 or for more than six months, has situs there whether the use extends through or commences with the lien date.

Property which does not have situs where located on the lien date pursuant to the previous paragraph has situs at the location where it is normally returned between uses or, if there is no such location, at the principal place of business of the owner.

(b) **GENERAL AIRCRAFT.** Aircraft other than those subject to Revenue and Taxation Code sections 1150 and 1155 have situs for taxation purposes at the airport in which they are habitually situated when not in flight. An aircraft that spends a substantial amount of ground time at each of two or more airports has its tax situs at the airport where it spends the greatest amount of ground time.

(c) This section does not apply to boats or racehorses.

History: Adopted February 7, 1968, effective March 14, 1968.
Amended February 24, 1969, effective March 30, 1969.
Amended July 31, 1980, effective November 19, 1980.
Amended July 27, 1982, effective February 17, 1983.