

# *ASSESSMENT PRACTICES SURVEY*

## **AUDIT PROGRAM**

**1986**

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### CALIFORNIA STATE BOARD OF EQUALIZATION

William M. Bennett, Kentfield. . . . . First District  
Conway H. Collis, Los Angeles. . . . . Second District  
Ernest J. Dronenburg Jr., San Diego . . . . . Third District  
Richard Nevins, Pasadena . . . . . Fourth District  
Kenneth Cory, Sacramento . . . . . State Controller  
Douglas D. Bell, Executive Secretary

## Memorandum

To: Honorable Richard Nevins  
Honorable Conway H. Collis  
Honorable William M. Bennett  
Honorable Ernest J. Dronenburg, Jr.  
Honorable Kenneth Cory

Date: May 1986

From: Gordon P. Adelman

Subject: Special Topic Survey on County Audit Programs

This comprehensive report on county audit programs brings together in one report, at one point in time, the practices and procedures used in 57 county assessors' offices (the San Luis Obispo County Assessor again refused to participate in a Board statewide survey). It is hoped that the report will direct attention to practices that are effective and promote equalization among the counties who participated in the survey.

We extend appreciation to those county assessors and their staff members whose cooperation have made this report a valuable tool for use in improving California's property tax program.

GPA:wpc

cc: Mr. Douglas D. Bell  
Mr. Jesse R. Huff, Director  
Department of Finance  
Mr. David R. Doerr, Chief Consultant  
Assembly Committee on Revenue and Taxation  
Mr. Martin F. Helmke, Consultant  
Senate Committee on Revenue and Taxation

AS-38-0045C

## PREFACE

Although the State Board of Equalization regularly surveys the assessment practices of every county assessor via field and office audits, there occasionally arise additional areas of concern to all county assessors and others in the assessing community. These areas are addressed in single-issue reports as authorized by law. These reports, known as special topic surveys, are based on data gathered from questionnaires sent to the 58 counties, rather than from field or office reviews conducted in each county. The published surveys are distributed to county assessors, the elected Board Members, the Legislature, selected state officials, and individuals in the private sector.

The subject of this survey is the county assessors' audit programs. The objectives of the research done for this report were to gather statistical data, to isolate common problems and recommend solutions to them, and to assemble within a single publication all relevant statutes, regulations, and Board advisory letters dealing with the audit program.

The information needed to accomplish these objectives came in part from county assessors' responses to the audit program questionnaires which were mailed to all counties. The staff of the Assessment Standards Division, Department of Property Taxes, analyzed the questionnaire responses and drafted this report.

The help of those county assessors who cooperated in this survey is greatly appreciated. It should be noted that, as with previous special topics surveys, only the San Luis Obispo County Assessor refused to participate in the survey.

Verne Walton, Chief  
Assessment Standards Division  
Department of Property Taxes  
California State Board of Equalization  
May 1986

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## I. INTRODUCTION

County audit programs have been less seriously affected by the enactment of Article XIII A than have real property assessment programs, because many audits of business property primarily involve personal property, which is of course not subject to the value limitations of Article XIII A. Nonetheless, the basic system of taxing personalty at its full value on the lien date of each year has been significantly altered by recent legislation. The California Constitution gives the Legislature the power to amend the method of taxing personalty through enactments, but only the voters can change the method of taxing real property. Consequently, although Article XIII A did not address the taxation of personal property (except as to the general tax rate limitation applicable to all taxable property), the Legislature has since 1978 passed a steady stream of laws modifying methods of assessing and exempting personal property. A summary of these enactments can be found in Appendix 6.

County audit programs range from none at all in a few small, sparsely inhabited mountain counties to detailed programs involving direct billing, office audits, cooperative and contract audits, and extensive nonmandatory audits in the large metropolitan counties. Regardless of the size of the county's audit program, however, one theme continually surfaces in the comments made by all county assessors: how to perform more audits within the constraints on money and manpower that are a fact of life for local governments in the post-Proposition 13 era.

The audit program questionnaires sent to all counties contained 26 questions, which have been grouped into seven categories for discussion in this report:

- (1) Budget and workload
- (2) Audit practices
- (3) Appeals and penalties
- (4) Business property statements
- (5) Banks and insurance companies
- (6) Special audit programs
- (7) Administering the audit program.

County responses to these questions are discussed according to the above sequence in Chapter II, Conclusions.

The focus of this report is on the overall administration of the county assessor's audit program. Readers wishing to study the actual conduct of an audit of a taxpayer's records are referred to Assessors' Handbook Section 504, General Audit Guidelines.

Finally, six appendices are included in this report. They encompass the audit questionnaire itself, sample business property statements, pertinent sections from various state codes, relevant Board advisory letters, and summarized recent property tax legislation affecting the county audit program.

Readers are advised that several counties could not supply precise answers to some of the questions. In addition, no information was received from San Luis Obispo County; the county assessor once again refusing to participate in a Board survey. Therefore, the numerical data found in this report are approximate and should be used only to identify general trends in assessment practices among the counties.

## II. CONCLUSIONS

### A. BUDGET AND WORKLOAD

Question 6 (see sample questionnaire in Appendix 1) concerned how the enactment of Article XIII A and the increase in the amount of the inventory exemption to 100 percent have affected the audit function of the local assessment program. The 56 counties that responded to this question were evenly divided between stating that Proposition 13 had no impact on the number of auditor-appraiser positions and that it caused a decrease in such positions. The full exemption of inventory (which reached 100 percent for fiscal year 1980-81 and thereafter) has caused decreases in the number of auditor-appraiser positions in ten counties, while in all other responding counties it has had no adverse impact.

Question 7 asked how much of the audit-appraisal staff's time was spent auditing. "Auditing" was defined to include fieldwork, write-up, reviews, and appeals of audit results. Percentages estimated by the 55 responding counties ranged from "zero" (audits done entirely by contract-- no full-time audit staff) to 75 percent. The average was 46 percent. This low figure indicates that if ways could be devised to free audit staff to spend more time doing audits, the need for additional staff would diminish, while tax revenues would increase.

Data summarized in the Board's annual Budget and Workload Report indicates that the staffing level of business property appraisers has kept pace with changes in the mandatory audit workload. The number of business property appraisers has declined from the statewide level of slightly over 600 positions in fiscal year 1980-81, to slightly less than 600 for fiscal year 1984-85; but the number of mandatory audits has also decreased, from nearly 29,000 in fiscal year 1981-82 to about 26,000 in 1984-85. The number of mandatory audits per business property appraiser as of 1984-85 stands at about 50, the same level observed in 1980-81.

County assessors should remember that the main job of auditors and auditor-appraisers is to perform mandatory audits. Property tax law actually requires specialized education, training and certification in accounting and auditing procedures only for individuals who will be performing audits of business property the full value of which exceeds \$200,000.<sup>1</sup> This means that other members of the county assessor's staff who possess sufficient experience and other qualifications may be assigned to the routine processing of business property statements, physical inspections of personalty located at motels, apartment houses, barbershops, bars, and other businesses that are good candidates for direct billing, and even some office audits of nonmandatory accounts. Auditors and auditor-appraisers should be freed to do the only task for which their qualifications are legally required: mandatory audits.

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<sup>1</sup> Section 670(d), Revenue and Taxation Code. See Appendix 4.

## B. AUDIT PRACTICES

The focus of Questions 3, 4, and 8 was the appraisal and audit practices of county assessors. Of the 55 responding counties, 42 indicated that they use historical audit data as the basis for classifying machinery and equipment; 47 use actual physical inspection as a criterion; 33 use arbitrary allocations;<sup>2</sup> and 12 counties also use court decisions as guidelines for classifications. Only eight counties use a single criterion; the other 47 use at least two different methods of classification, depending on circumstances.

Of the three main methods of valuing personal property and fixtures, 55 counties (100 percent of respondents) employ at least one method, that being the replacement cost approach (trended and depreciated historical cost). Twenty-eight counties use current market sales data derived from sources such as the "Green Guide," "Blue Book," other equipment guides and trade publications. Another 19 counties employ an income approach (capitalized lease payments) when possible. Twenty-four counties use only a single method of valuation (replacement cost estimate); 31 counties resort to multiple value indicators.

Regarding the 100 percent business inventory exemption, 32 counties of the 54 that responded to Question 8 indicated that business inventories are checked during audits for those years (ordinarily four) open under the statute of limitation. Nine counties check inventories for both current and prior years, and 31 counties check inventory for the current years only to determine whether supplies (which are still taxable) have been misclassified as inventory. The State Board recommends that inventory be reviewed during each four-year audit, even though inventory has not been taxable since fiscal year 1979-80, to detect the possible misclassification of supplies. The problem of distinguishing supplies from inventory has previously been addressed by the Board.<sup>3</sup>

## C. APPEALS AND PENALTIES

Questions 5, 9, and 10 concerned post-audit administration of assessment appeals and the levying of penalties and interest.

Current law<sup>4</sup> requires a penalty in the amount of 10 percent of the value of the unreported taxable tangible property to be added to the assessment on the current roll. This means that the penalty applies to both unreported real and personal business property. Of the 55 counties that answered Question 5, only four indicated that they apply the penalty to land (two of these specified that they applied the land penalty to mining claims only). Nineteen counties apply the penalty to structures, 49 counties apply it to unreported fixtures, and 50 apply it to personal property. Eight counties reported exclusions from penalties for such property as escaped business property worth less than \$30,000 when no business property statement has been sent to the property owner for vessels and leased equipment timely reported by the lessee but reported late or not at all by the

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<sup>2</sup> A suggested allocation study done by the State Board, which contrasts classifications used by selected counties and the Board is found in Appendix 2.

<sup>3</sup> See the Board's Letter to Assessors 80/69, dated April 25, 1980, as referenced in Appendix 5.

<sup>4</sup> Revenue and Taxation Code, Section 463. See Appendix 4. See also sample "Notice of Audit Results" on page 64 of Assessors' Handbook Section 504, General Audit Guidelines.

lessor. Regarding this situation, it should be noted that current law<sup>5</sup> allows the timely reporting of leased property by the lessee in lieu of a similar report by the lessor only where the reporting lessee has contractual property tax obligations for the leased property.

Although the California Administrative Code requires the county assessor to notify the taxpayer of his value conclusions following the audit<sup>6</sup>, the manner of taxpayer notification is not specified. This allows the county assessor to use a variety of methods: special mailed notice, telephone contact, tax bill, in-person meeting, and others. Mail service is the most common method of notifying taxpayers of audit findings. Fifty-four of the 55 responding counties indicated that they employ mail notification. Six counties also use the tax bill itself as notification; 19 counties notify taxpayers of audit findings at the conclusion of the formal audit; and 23 counties inform taxpayers by telephone. Twenty-three counties employ only one means of notifying taxpayers, that being mail service, while thirty-one use at least one other additional method.

Question 10 asked what sort of appeals process was used in each county for reviewing contested audit findings. The first step in all counties is a meeting with the auditor-appraiser who actually conducted the audit. Thirty-seven counties indicated that a consultation with the supervising auditor-appraiser was also possible. Forty-one county assessors meet with taxpayers following audits. Beyond these meetings with the county assessors and their staff, 29 counties feature a formal appeal to the local board of equalization, while 24 counties refer disgruntled taxpayers to assessment appeals boards.

#### D. BUSINESS PROPERTY STATEMENTS

Business property statements are an important means of gathering information upon which to base an assessment. Questions 23 through 26 concerned the use of these statements in the audit program.

Question 23 concerned how county auditor-appraisers handle the removal of pre-1975 trade fixtures which are reported as deleted items on the current year's business property statement. Nine counties responded that they subtract the reported cost from the 1975 base year total value. Twenty-two counties subtract the reported cost which has been adjusted by trending it to a 1975 value and then applying the appropriate Proposition 13 inflation index. Ten counties subtract the reported cost which has been factored to the current base year value according to Proposition 13. Seven counties subtract the reported cost adjusted by trending it to current market value with a composite factor (replacement cost index times current table percent good). There were also six miscellaneous answers that fit none of the four preceding categories.

It appears that this question seemed ambiguous to county assessors and that the multiple-choice answers were confusing. The State Board's official recommendation for deleting trade fixtures acquired prior to 1975 from total taxable value is as follows. The cost (assuming it equals full cash value) of the pre-1975 acquisition should be trended to the 1975 level and then depreciated according to the table percent good for 1975. This product should then be factored two

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<sup>5</sup> Section 442, Revenue and Taxation Code. See Appendix 4. See also reference in Appendix 4 to legal letter No. 1039, dated April 22, 1983.

<sup>6</sup> Property Tax Rule No. 191. See Section A of Appendix 4.

different ways: by the composite (depreciated replacement index) factor to yield “full value,” and by the cumulative Proposition 13 inflation index to yield “factored base year value.” The lower figure will be the taxable value of the trade fixture for the current roll. The deletion of the trade fixture is accomplished by subtracting this lower amount from the total taxable value of all fixtures.

In practice, many counties do not delete trade fixtures through this process. They simply begin with the actual costs of trade fixtures reported for each year by the assessee on the current year's business property statement. These reported costs should already reflect any deletions; they are net entries for each year. There should be an explanatory footnote that indicates the cost of the retired trade fixture at the bottom of Schedule B, Form AH 571-L or AH 571-S. Supplemental Schedule AH 571-D will also reflect disposals during the specified period.<sup>7</sup> Ideally, trade fixtures will be reported on Schedule B, Category 2; in practice, of course, unaudited reports of trade fixtures are suspect due to the general lack of sophistication on the part of some assessees, who often misclassify business property.

Question 24 asked for numerical data on business property statements; specifically, how many Forms AH 571-L and AH 571-S (basic business property statements) were filed in 1982-83. Forty-nine counties supplied figures totaling over 749,000 business property statements processed in 1982-83. About 625,000, or 83 percent of these processed statements, culminated in an assessment. The remainder did not, presumably due to insufficient taxable value.

Question 25 asked how many agricultural property statements were processed in 1982-83. Forty-one counties supplied estimates for an approximate total of 88,000. Only about 55,000 of these statements (63 percent) produced an enrollment.

Question 26 asked by category how many additional types of business property statements the counties processed for the 1982-83 tax year. Forty-four counties processed more than 1,500 mutual or private water company statements (Form AH 540-S) and enrolled a total value of almost 350 million dollars.

Twenty-five counties mailed over 5,200 oil and gas personal property statements (Form AH 566-J), which resulted in enrollments of nearly 1.57 billion dollars of full value. The other industrial property statement, Form AH 571-G (service station and bulk storage), was reported in use by 42 counties for almost 11,000 separate assessments totaling 122.7 million dollars.

Only 23 counties employed Form AH 570-1-L (supplemental schedule for piston or turbo prop air carriers) for the 1982-83 roll. Nearly 1,400 individual roll entries produced a total full value in excess of 1.13 billion dollars. The other supplemental schedule, Form AH 570-1-S (for jet engine air carriers), was used by still fewer counties (15); here, 161 entries produced a total assessment of over 678 million dollars. Thirty-eight counties used the general aircraft property statements (Forms AH 577-A and AH 577-B) to make nearly 20,000 enrollments for a total of slightly greater than one billion dollars of full value.

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<sup>7</sup> See listing of Board-prescribed or recommended property statements in Appendix 3.

Relatively few counties regularly employ the Board's forms designed for reporting various kinds of horses. The horse population in California is probably concentrated near race tracks and in predominantly rural areas. Twenty-seven counties used Forms 571-F-2 (registered and show horses) to assess more than 600 such horses on the 1982-83 tax roll. The total assessed value of these animals could not be determined. Twenty-nine counties used Forms AH 571-J or AH 571-J-1 (racehorses and boarded racehorses) for the 1982-83 roll; over 2,000 such horses were assessed. No totals were available for either the total in-lieu tax so collected or the total winnings of these racehorses. Finally, only 13 counties used Form AH 571-K (horses other than racehorses) for the 1982-83 roll. Approximately 400 horses were assessed in this category. Their total assessed value exceeded 1.4 million dollars.

Form AH 576-D is employed to obtain information about general purpose vessels. Forty-four counties processed over 103,000 of these vessel statements for the 1982-83 assessment roll, producing a total enrolled value of over 1.4 million dollars. Documented vessels are reported on Form AH 576-E and, if found eligible, are assessed at 4 percent of their full cash value. Twenty-nine counties processed more than 4,000 such claims for the 1982-83 local roll, allowing the preferential assessment on almost 3,500 of these vessels.

## E. BANKS AND INSURANCE COMPANIES

Questions 1 and 2 concerned the assessment of bank and insurance company fixtures. California law imposes a tax on banks, financial corporations, and insurance companies which is in lieu of taxes on personal property but which is not in lieu of taxes on real estate and certain other taxes. Therefore, although personal property owned by banks, financial corporations, and insurance companies is exempt from taxation, fixtures owned by such entities must be identified, valued, and assessed.

Because fixtures owned by banks, other financial corporations, and insurance companies are often high-cost items such as alarm systems, automatic teller machines, vault doors, and illuminated signs, it is not unusual for these fixtures to have a full value totaling \$200,000 or more. This value threshold is set by law; accounts which equal or exceed a full value of \$200,000 require an audit of the business' books at least once each four years.<sup>8</sup> Question 1 asked whether county assessors have updated their mandatory audit listings to include banks and insurance companies with fixture values of \$200,000 or more. Seven counties stated that there were no such entities within their county limits. Forty-one counties have added qualifying banks and insurance companies to their mandatory audit listing, while nine have not.

Current law<sup>9</sup> provides for an extension of the four- or six-year statutory limitation on enrolling escape assessments, as long as both the county assessor and the taxpayer have agreed in writing to extend the period before the expiration of the original four- or six-year period. Exhibit 1 is a sample agreement to waive. This suggested form has already been included in two sections of the Assessors' Handbook: AH 503, Management of the Business Property Program (1977 revision, page 63), and AH 504, General Audit Guidelines (1974, reprinted 1976, page 62).

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<sup>8</sup> Section 469, Revenue and Taxation Code. See Appendix 4.

<sup>9</sup> Section 532.1, Revenue and Taxation Code. See Appendix 4.

Question 2 related to the waiver of the statute of limitation as it applies to banks and insurance companies. Eighteen counties have obtained such waivers when audits cannot be timely conducted. Twenty-three counties said no waiver was necessary because audits were timely performed. The remaining 17 counties either failed to respond to this question or gave an answer such as "not applicable." The reason that the waiver agreement might be useful for bank and insurance company audits is that, until recent years, many counties failed to request statements from such entities. Fixtures owned by and insurance companies were often incorrectly exempted from taxation in past years. To correct this situation might entail an audit beyond the most recent four years.

#### F. SPECIAL AUDIT PROGRAMS

Question 11 through 19 concerned special audit programs. The first such program is the cooperative audit program. This is an agreement among participating counties to pool their out-of-state audits. An auditor-appraiser from one county will travel to the location of the taxpayer's records (usually company headquarters) and perform the audit. This arrangement is beneficial to county assessors because taxable property located in several counties may be enrolled through a single audit. Another benefit to county assessors is that the county closest to the audit location can send audit staff to that location, resulting in lower overall travel costs and reduced total time spent on the audit. Taxpayers benefit, too, because their operations are less disrupted by a single auditor-appraiser's visit than by multiple visits by audit staff from different counties.

Twenty-seven counties stated, in response to Question 11, that they currently participate in a cooperative audit program. One county was just getting involved in the program; twenty-eight counties do not participate in it at all.

EXHIBIT 1

AGREEMENT TO WAIVE STATUTE OF LIMITATIONS  
(REVENUE AND TAXATION CODE, SECTION 532.1)

To: \_\_\_\_\_

Assessor of \_\_\_\_\_ County

The period of limitations specified by Section 532 of the Revenue and Taxation Code within which an escape assessment of property for 19\_\_ may be made for the purposes of property taxation will expire after June 30, 19\_\_. The County of \_\_\_\_\_ is engaged in or is contemplating an audit of the undersigned's property situated in the county on the lien date 19\_\_.

In consideration of the assessor's forbearance to make an escape assessment for 19\_\_ prior to July 1, 19\_\_,

\_\_\_\_\_ hereby agrees to waive all rights and  
(Person or Corporate Name)

privileges conferred by the statute of limitations specified by Section 532 of the Revenue and Taxation Code until \_\_\_\_\_, 19\_\_.  
(Date)

Signed \_\_\_\_\_

Title \_\_\_\_\_

If Incorporated \_\_\_\_\_

(Complete Corporate Name)

Accepted: \_\_\_\_\_

Assessor, County of \_\_\_\_\_

By \_\_\_\_\_

Deputy

Question 12 asked for the number of audits made and escapes enrolled as a result of 1982-83 cooperative audits. A total of 508 individual taxpayers were audited, producing 1,529 audit units. An "audit unit" was defined in the survey questionnaire as a taxpayer's property per location per year audited. The total value enrolled through cooperative audit programs was 63.6 million dollars. Questions 13 and 14 asked county assessors whether they maintain a formal nonmandatory audit program, involving a formal selection process and significant number of accounts. Thirty-three counties maintain such programs, while 22 do not. For the 1982-83 tax year, over 8,500 taxpayers were audited, resulting in greater than 14,000 audit units completed and enrolled full value exceeding 362 million dollars.

Office audits involve having the taxpayer bring his or her records in to the county assessor's office for audit, thus saving travel time to the taxpayer's business location. Although not all audits begun in the county assessor's office will end there—when, for instance, a question on trade-in allowances for replaced equipment makes it necessary to review additional documents such as sales invoices—the office audit program is on the whole a highly efficient use of staff time.

Question 17 dealt with the number of office audits performed in 1982-83 and the full value enrolled as a result of such audits. There were approximately 1,500 such audits performed in 1982-83, yielding over 52 million dollars in full value.

Sixteen county assessors employ their own audit-appraisal staff to perform out-of-county audits, in addition to using cooperative and contract audit services. A few of these sixteen counties employ correspondence audits by mail for nonmandatory accounts. This involves asking taxpayers to send balance sheets, asset ledger totals, and other supporting documents to the county assessor's office for review. This method is an intermediate solution, more thorough than simply processing a business property statement but less reliable than a complete audit. No reliable total full value of accounts so reviewed could be determined from questionnaire responses.

Direct billing<sup>10</sup> is a procedure developed to facilitate small business assessments. Selected accounts are periodically appraised (usually at three-year intervals) and these appraised values are automatically enrolled each year thereafter without requiring the assessee to annually file a property statement.

Of the 56 counties that responded to Question 19, 25 indicated that they use direct billing and 31 counties stated they do not. Three counties had begun direct billing for the 1983-84 tax roll. One county uses direct billing only for boats. The number of business accounts directly billed on the 1982-83 roll ranged from less than 100 in one county to over 100,000 in another. Over 708 million dollars in full value was enrolled that year through direct billing of over 180,000 individual accounts.

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<sup>10</sup> For a complete discussion of the direct billing system, see Assessors' Handbook Section 504, General Audit Guidelines, pages 73-79.

## G. AUDIT PROGRAM ADMINISTRATION

Questions 20, 21, and 22 focused on the overall administration of the audit program. Question 20 asked whether auditor-appraisers supplied audited data to appraise or assist in appraising various types of real property. Fifty-three counties responded that auditor-appraisers contributed to both commercial and industrial property appraisals. Thirteen counties stated that auditor-appraisers play a role in oil and gas appraisals; in 36 counties, auditor-appraisers are involved in making possessory interest appraisals; and in eight counties, auditor-appraisers assist in utility property appraisals. In addition, in nine counties auditor-appraisers supply audited data for the appraisal of agricultural properties.

Question 21 offered respondents six choices for improving the county audit program. Thirty counties indicated that an initiation or expansion of the office audit program was in order. Thirty-one counties recommended requiring out-of-state taxpayers to bring their records to the county assessor's office for audit. Fifteen counties thought it a good idea to require taxpayers to reimburse the county for expenses incurred in auditing distant accounts. Nineteen counties favored a random audit sampling method rather than the current mandatory method. Eighteen counties wanted to initiate or expand the program of contracting with counties where taxpayers' records are located to perform audits (other than co-op counties). Only one county approved of having the State Board of Equalization audit all mandatory accounts. Miscellaneous suggestions (of which there were 13) included: hiring more auditor-appraisers, expanding direct billing programs to include accounts up to \$100,000, and skipping mandatory audits where a prior audit of the same account showed no changes.

An audit program that deserves special mention is the contract audit program offered by the State Board of Equalization as required by law.<sup>11</sup> This program, which has enjoyed 20 years of success, saves money for county assessors who would otherwise be forced to send audit personnel out of state to perform mandatory audits. Since the Board maintains permanent business taxes audit staffs in Chicago, New York, and Houston, it can offer high-quality, professional audits performed by business tax auditors at lower travel costs. Also, these audits can frequently be done for several counties at once, since large businesses headquartered outside of California often operate in many counties within California. This reduces costs to individual counties even further by spreading the travel expenses over a broader base. Another advantage is that the contract property tax audits are pooled with the Board's business tax audits to maintain a full workload at most out of state locations, thereby reducing indirect audit time (travel from city to city).

The State Board of Equalization is justifiably proud of its contract audit program. Since its inception in 1966, it has produced over 5,000 cost-effective audits for 52 of the 58 counties. The average return from the contract audit program over the last five years has been a very respectable \$7.32 in taxes recovered for each \$1.00 of audit cost.

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<sup>11</sup> Section 15624, Government Code. See Appendix 4.

Finally, Question 22 asked the counties for suggestions for legislation to improve the audit program. Thirty different ideas were advanced. Those most often mentioned were:

- (1) Increase penalties for late filing, willful underreporting, and fraud.
- (2) Require out-of-state assessees to bring their records to the assessor's office.
- (3) Raise the limit for mandatory audits.
- (4) Transfer the responsibility for assessing all boats and airplanes to the State Board of Equalization as a centrally assessed valuation program.

## APPENDICES

County \_\_\_\_\_

Person to Contact \_\_\_\_\_

Phone No. \_\_\_\_\_

### AUDIT PROGRAM QUESTIONNAIRE

1. Has the mandatory audit listing been updated to include bank and insurance companies with fixture values of \$200,000 or more full value?

Yes \_\_\_\_\_ No \_\_\_\_\_

2. Have waivers been obtained for bank and insurance companies when it appears that they will not be audited in a timely manner?

Yes \_\_\_\_\_ No \_\_\_\_\_

3. What criteria are used in classifying machinery and equipment: i.e., personalty versus fixtures?

\_\_\_\_\_ Historical audit data

\_\_\_\_\_ Physical inspection

\_\_\_\_\_ Allocation by industry class based on allocations used by other counties or the Board

\_\_\_\_\_ Other (list)

4. Check the methods used by your office in valuing business personal property and fixtures.

\_\_\_\_\_ Replacement cost less normal depreciation

\_\_\_\_\_ Sales data approach

\_\_\_\_\_ Income approach

\_\_\_\_\_ Other (list)

5. To which of the following class(es) of property does your office apply the 10 percent penalty for failing to file a business property statement? (Revenue and Taxation Code, Section 463.)

		Yes	No
(1)	Land	_____	_____
(2)	Improvements	_____	_____
a.	Structures	_____	_____
b.	Fixtures	_____	_____
c.	Trees and Vines	_____	_____
d.	Other:	Describe:	_____

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(3) Personalty

a. All Types \_\_\_\_\_

b. Exclusions (Describe): \_\_\_\_\_

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6. a. Have auditor-appraiser positions (as authorized) increased or decreased as a result of Proposition 13 passing in 1978?

Increase \_\_\_\_\_ Decrease \_\_\_\_\_ No Change \_\_\_\_\_

b. Have such positions increased or decreased as a result of inventories becoming 100 percent exempt?

Increase \_\_\_\_\_ Decrease \_\_\_\_\_ No Change \_\_\_\_\_

7. What percent of the audit appraisal's staff time is spent on auditing?\*

Percent \_\_\_\_\_

\*For total staff time, include all time worked by auditor-appraisers, personal property appraisers, and business division supervisors. For time spent on auditing, include all time expended on audits, including fieldwork write-up, reviews, and appeals of audit results.

8. Business inventories are checked on audit even though 100 percent exempt as of lien date 1980, for:

\_\_\_\_\_ Only those years open under statute of limitations

\_\_\_\_\_ For current as well as prior years

\_\_\_\_\_ For current years only to verify that assessable supplies, etc., were not excluded by the taxpayer as "inventory."

9. Taxpayers in your county are notified of audit findings by:

\_\_\_\_\_ Formal audit reviews

\_\_\_\_\_ Telephone discussions

\_\_\_\_\_ By mail

\_\_\_\_\_ Receiving tax bill

\_\_\_\_\_ Other (describe) \_\_\_\_\_

10. What appeals process is available to taxpayers in your county for reviewing contested audit findings?

\_\_\_\_\_ Meet with auditor-appraiser of record

\_\_\_\_\_ Meet with audit supervisor

\_\_\_\_\_ Meet with assessor

\_\_\_\_\_ Formal appeal to board of supervisors as local board of equalization

\_\_\_\_\_ Formal appeal to assessment appeals board

11. Do you currently participate in a cooperative counties audit program?

Yes \_\_\_\_\_ No \_\_\_\_\_

12. If the previous question was answered "yes," what were the results of the cooperative program for 1982-83; i.e., number of audits and deficiencies enrolled for the last fiscal year?\*

Number (taxpayers)\* \_\_\_\_\_ Audit units \*\* \_\_\_\_\_

Full value enrolled \$ \_\_\_\_\_

\* Number = number of taxpayers

\*\* Audit unit = taxpayer x location(s) x year(s) audited.

13. Does your office have a formal nonmandatory audit program? (A program where a significant number of nonmandatory audits are budgeted each year and a formal selection process is used to determine which accounts will be audited.)

Yes \_\_\_\_\_ No \_\_\_\_\_

14. What were the results of nonmandatory audits for 1982-83?

Number audited (taxpayers) \_\_\_\_\_ Audit units \_\_\_\_\_

Full value enrolled \$ \_\_\_\_\_

15. Does your office have an office audit program?

Yes \_\_\_\_\_ No \_\_\_\_\_

16. Does the office audit program encompass:

\_\_\_\_\_ Nonmandatory accounts

\_\_\_\_\_ Mandatory accounts

\_\_\_\_\_ Both

17. Number of office audits performed in 1982-83 \_\_\_\_\_

Amount enrolled (full value) in 1982-83 for office audits \$ \_\_\_\_\_

18. Are there audit method(s) used by your office other than contract and co-op audits for out-of-county audits?

Name \_\_\_\_\_

Number of audits (taxpayers) \_\_\_\_\_ (audit units) \_\_\_\_\_

Audit results (full value) \_\_\_\_\_

19. Does your county have direct billing?

Yes \_\_\_\_\_ No \_\_\_\_\_

How many accounts?

No. \_\_\_\_\_ \$ \_\_\_\_\_ (full value on 1982-83 roll)

20. Do auditor-appraisers supply audited data to appraise or assist in appraising the following:

- \_\_\_\_\_ Commercial properties
- \_\_\_\_\_ Industrial properties
- \_\_\_\_\_ Oil and gas properties
- \_\_\_\_\_ Possessory interests
- \_\_\_\_\_ Utility properties
- \_\_\_\_\_ Other (describe) \_\_\_\_\_

21. The most cost effective way to improve the audit program in your county would be to:

Expand Existing Program	Implement New Program	
_____	_____	Expand or institute an in-office audit program
_____	_____	Require out-of-state taxpayers to deliver their records to your office
_____	_____	Require taxpayers to reimburse the county for expenses incurred in auditing distant accounts
<u>N/A</u>	_____	Substitute a random audit sampling method rather than the current mandatory method
_____	_____	Contract with counties where taxpayer's records are located to conduct the audit (other than co-op counties)
_____	_____	Require state to audit all mandatory accounts
_____	_____	Other (list)
		_____
		_____

22. What legislation would you like to see that would directly affect your audit program?

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

23. When trade fixtures that were acquired prior to 1975 are reported as deleted items on the current business property statement, which of the following methods do you use to remove them? Assume a Proposition 13 value applies.

- \_\_\_\_\_ Subtract the reported cost from the 1975 base year total value
- \_\_\_\_\_ Subtract the reported cost adjusted by trending it to a 1975 value and then apply the appropriate index factor
- \_\_\_\_\_ Subtract the reported cost adjusted by the appropriate index factor
- \_\_\_\_\_ Subtract the reported cost adjusted by trending it to a current market value

24. How many business property statements were processed in 1982-83? How many had values that eventually led to an enrollment and how many did not produce an enrolled value? (Form AH 571-L and AH 571-S only)

- Number of BPS processed that created an enrollment \_\_\_\_\_
- Number of BPS processed that did not create an enrollment \_\_\_\_\_
- Total number of BPS processed \_\_\_\_\_

25. How many agricultural property statements were processed in 1982-83? How many had values that eventually led to an enrollment and how many did not produce an enrolled value? (Form AH 571-F only)

- Number of ag statements processed that created an enrollment \_\_\_\_\_
- Number of ag statements processed that did not create an enrollment \_\_\_\_\_
- Total number of ag statements processed \_\_\_\_\_

26. How many of the following other property statements were processed in 1982-83? Show the number processed and the total full value enrolled for each.

<u>Form #</u>	<u>Description</u>	<u>Number</u>	<u>\$ Full Value</u>
540-S	Mutual or Private Water Companies	_____	_____
566-J	Oil and Gas P/P Statement	_____	_____
570-1-L	Air Carrier Supplemental Schedule (piston or turbo prop)	_____	_____
570-1-S	Air Carrier Supplemental Schedule (jet engine)	_____	_____
571-F-2	Registered and Show Horses	_____	_____
571-G	Service Station or Bulk Storage	_____	_____
571-J/J-1	Racehorses and Boarded Racehorses	_____	_____
571-K	Horses Other Than Racehorses	_____	_____
577 A or B	General Aircraft	_____	_____
576-D	Vessel Property Statement	_____	_____
576-E	Affidavit for One Percent Assessment	_____	No. allowed _____

MACHINERY AND EQUIPMENT CLASSIFICATION STUDY  
 PERCENTAGE CLASSIFIED AS IMPROVEMENTS

SERVICE, REPAIR, AMUSEMENT	COUNTIES													ASD		
	Alameda	Contra Costa	Orange	San Diego	San Mateo	Santa Clara	Riverside	Fresno	Los Angeles	San Joaquin	San	Min	Max	Most Used	ASD	
															Min	Max
Auto Repair (Garages)	-	-	20	-	40	-	-	-	-	-	-	-	80	-	-	-
Barber Shop	-	75	70	70	20	20	20	-	-	-	-	-	50	50	-	-
Beauty Shop	-	-	50	20	50	-	20	-	-	-	-	-	70	70	-	-
Bowling Alley	-	-	90	-	70	70	70	60	-	-	-	-	100	100	-	-
Brake Shops w/Alignment	-	-	-	-	40	40	-	-	-	-	-	-	80	-	-	-
Car Wash (Automatic)	-	-	90	80	80	80	80	90	-	-	-	-	100	100	-	-
Car Wash (Self Service)	-	-	90	90	-	-	90	90	-	-	-	-	-	-	-	-
Cold Storage	-	-	80	80	-	70	80	100	40-60	75	-	-	95	-	-	-
Dentists	-	75	60	40	30	30	40	-	-	-	-	-	40	-	-	-
Dry Cleaners	-	75	90	70	60	70	50	90	-	-	-	-	-	-	-	-
Hospitals	50	-	30	30	50	-	30	-	25-80	-	-	-	100	100	-	-
Hotels	-	-	-	30	-	-	40	-	0-66	-	-	-	60	-	-	-
Launderettes (Coin Operated)	100	75	90	70	70	70	70	90	-	-	-	-	20	-	-	-
Laundries	-	-	90	60	60	60	70	90	-	-	-	-	-	-	-	-
Loan Companies	-	-	-	20	50	-	20	-	-	-	-	-	60	-	-	-
Machine Shop	-	25	80	60	-	-	80	60	40-90	-	-	-	80	-	-	-
Mortuaries	-	-	-	70	60	-	-	-	-	-	-	-	-	-	-	-
Radio Broadcasting	-	-	80	60	50	-	-	80	50-90	-	-	30	40	40	-	-
Savings and Loan Association	-	-	50	30	50	-	30	40	0-40	-	-	-	100	100	-	-
Shoe Repair	-	-	80	20	60	60	80	-	-	-	-	-	100	-	-	-
TV Broadcasting	-	-	80	40	50	-	-	80	30-100	-	-	30	40	40	-	-
Theatres (Drive-In)	-	-	90	50	-	60	50	40	-	-	-	-	-	-	-	-
Theatres (Inside)	-	-	90	70	70	70	70	60	-	-	-	-	-	-	-	-
Tire Recapping	-	-	-	20	60	50	-	-	-	-	-	-	-	-	-	-
Title Insurance and Escrow	-	-	-	20	30	-	20	-	-	-	-	-	-	-	-	-
Veterinarians	-	-	30	-	20	-	-	-	-	-	-	-	-	-	-	-
Ski Resort	-	-	-	-	-	-	-	-	-	-	-	-	100	100	-	-

MACHINERY AND EQUIPMENT CLASSIFICATION STUDY  
 PERCENTAGE CLASSIFIED AS IMPROVEMENTS

	COUNTIES												ASD		
	Alameda	Contra Costa	Orange	San Diego	San Mateo	Santa Clara	Riverside	Fresno	Los Angeles	San Joaquin	Min	Max	Most Used		
WHOLESALE AND DISTRIBUTORS															
Apparel, Textiles	-	-	20	20	30	-	20	40	-	-	-	-	-		
Auto Parts	-	75	20	20	30	-	-	-	-	-	-	-	-		
Dairy Products	-	-	20	20	30	-	40	40	-	-	-	-	-		
Drugs	-	50	20	20	30	-	30	40	-	-	25	-	-		
Electrical Goods	-	-	20	20	30	-	-	30	-	-	-	-	-		
Food	-	75	20	20	30	-	40	40	40-60	-	-	-	-		
Hardware, Building Supplies	-	-	20	20	30	-	40	30	-	-	-	-	-		
Liquor	-	75	20	20	30	-	60	30	60-75	-	-	90	90		
Meat Packers and Distributors	-	-	-	80	60	70	80	40	60-85	75	50	90	-		
Stationery, Office Equipment	-	75	20	20	-	-	20	-	-	-	-	80	-		

MACHINERY AND EQUIPMENT CLASSIFICATION STUDY  
 PERCENTAGE CLASSIFIED AS IMPROVEMENTS

RETAIL TRADE	COUNTIES											ASD	
	Alameda	Contra Costa	Orange	San Diego	San Mateo	Santa Clara	Riverside	Fresno	Los Angeles	San Joaquin	Min	Max	Most Used
Apparel	75	50	50	60	30	-	20	-	15-35	-	-	100	60
Appliance	75	25	-	-	20	-	-	-	-	-	-	50	-
Auto Parts	75	50	-	20	30	-	20	40	-	-	-	100	50-60
Bakeries	75	-	90	40	50	50	-	40	-	-	40	60	50
Building Materials	75	25	50	20	20	-	40	40	-	-	-	90	-
Cabarets/Cocktail Lounges	75	75	80	40	60	40	80	40	-	-	-	100	40-60
Dairy Products	75	50	-	80	50	50	-	40	75	-	20	100	100
Department Stores	75	50	50	50	20	20	40	40	55	-	-	100	60
Drugs	75	50	80	40	30	-	30	40	50-55	-	-	80	-
Florists	75	50	-	60	30	30	-	-	-	-	-	60	-
Furniture	75	25	-	20	20	-	-	-	-	-	-	95	-
Groceries	20	50	80	40	50	30	40	40	50-55	-	-	100	60
Hamburgers, Fast Foods	75	75	80	40	60	60	-	40	80	-	-	100	40-60
Hardware	75	50	-	30	20	-	40	-	35-55	-	-	100	60
Jewelry	75	50	80	30	30	-	30	-	-	-	20	20	20
Liquor	75	50	80	60	30	60	60	40	-	-	-	100	-
Lunch Rooms, Coffee Shops	75	75	80	-	60	60	-	40	50	-	-	100	40-60
Plumbing, Electrical	75	50	-	20	20	-	-	40	-	-	-	20	-
Refreshment Stands	75	75	80	30	60	60	-	-	80	-	-	100	40-60
Restaurants, Dinner Houses	75	75	80	40	60	60	80	40	50	-	-	100	40-60
Shoes	75	50	50	60	30	50	-	-	50-60	-	-	100	-
Sporting Goods	75	50	-	20	30	-	20	40	-	-	-	100	-
Variety (5&10)	75	50	-	20	20	-	20	40	35-55	-	-	100	60

MACHINERY AND EQUIPMENT CLASSIFICATION STUDY  
 PERCENTAGE CLASSIFIED AS IMPROVEMENTS

MANUFACTURING	COUNTIES										ASD		
	Alameda	Contra Costa	Orange	San Diego	San Mateo	Santa Clara	Riverside	Fresno	Los Angeles	San Joaquin	Min	Max	Most Used
Food Products													
Syrup Mfg.	-	-	-	-	-	-	-	-	-	-	-	50	50
Dairy Products	-	-	-	-	-	-	-	-	-	-	10	100	100
Bakery	-	-	80	70	50	70	-	40	60-75	75	50	80	80
Canned and Frozen Foods	80	75	80	70	60	70	80	60	60-80	75	40	100	90
Soft Drink	-	-	-	70	60	60	-	60	70-80	-	-	-	-
Sugar Refinery	-	-	-	-	-	-	-	-	-	-	-	93	93
Candy, Gum	-	-	-	-	-	-	-	-	-	-	96	97	96
Slaughter House	-	-	-	-	-	-	-	-	-	-	80	90	90
Flour Milling	-	-	-	-	-	-	-	-	-	-	-	95	95
Nut Processing	-	-	-	-	-	-	-	-	-	-	30	60	60
Grain Processing	-	-	-	-	-	-	-	-	-	-	60	85	65
Cereal Mfg.	-	-	-	-	-	-	-	-	-	-	80	92	92
Dehydrated Foods	-	-	-	-	-	-	-	-	-	-	-	100	100
Meat Processing	-	-	-	-	-	-	-	-	-	-	50	90	80
Textile Mill	-	-	-	-	-	-	-	-	-	-	-	-	-
Floor Covering	-	-	-	-	-	-	-	-	-	-	70	90	90
Fabric	-	-	-	-	-	-	-	-	-	-	-	90	90
Cotton Gin and Feed Processing	-	-	-	-	-	-	-	-	-	-	80	100	100
Apparel Mfg.	80	50	70	30	60	-	80	40	20-30	-	70	90	90
Lumber and Wood Products													
Sawmill	-	-	-	-	-	-	-	-	-	-	50	100	90
Furniture Mfg.	-	-	-	-	-	-	-	-	-	-	20	60	50
Plywood	-	-	-	-	-	-	-	-	-	-	-	95	95
Pressed Wood	-	-	-	-	-	-	-	-	-	-	-	90	90
Box and Pallet Mfg.	-	-	-	-	-	-	-	-	-	-	50	100	60
Alcoholic Beverages													
Brandy Distillery	-	-	-	-	-	-	-	-	-	-	-	80	80
Winery	-	-	-	-	-	60	80	60	-	75	50	100	75
Brewery	-	-	-	-	-	-	-	-	-	-	-	100	100
Distillery Bottler	-	-	-	-	-	-	-	-	-	-	-	80	80

MACHINERY AND EQUIPMENT CLASSIFICATION STUDY  
PERCENTAGE CLASSIFIED AS IMPROVEMENTS

	COUNTIES												ASD	
	Alameda	Contra Costa	Orange	San Diego	San Mateo	Santa Clara	Riverside	Fresno	Los Angeles	San Joaquin	Min	Max	Most Used	
Paper Products	-	-	-	-	-	-	-	-	-	-	75	100	99	
Printing														
Newspapers	-	75	80	60	60	-	60	60	90	-	50	66	50	
Others	-	-	-	-	-	-	-	-	-	-	25	50	50	
Fertilizer	-	-	-	-	-	-	-	-	-	-	-	100	100	
Chemicals														
Detergent	-	-	-	-	-	-	-	-	-	-	90	100	100	
Plastic	80	-	80	40	60	-	80	80	50-60	-	50	80	75	
Drug	-	-	-	-	-	-	-	-	-	-	-	80	80	
Paint	80	-	-	-	60	60	80	60	60-80	-	-	-	-	
Other	-	-	-	-	-	-	-	-	-	-	88	100	100	
Industrial Gas	-	-	-	-	-	-	-	-	-	-	-	100	100	
Petroleum Refining	-	-	-	-	-	-	-	-	-	-	95	100	100	
Rubber Products	-	-	-	-	-	-	-	-	-	-	70	100	90	
Leather Products	-	-	-	-	-	-	-	-	-	-	-	50	50	
Glass, Concrete, Etc. :														
Glass and Bottle Mfg.	-	-	-	-	-	-	-	-	-	-	86	100	100	
Cement Plant	-	-	90	70	-	80	-	60-90	60-90	-	82	100	100	
Asbestos, Adhesive	-	-	-	-	-	-	-	-	-	-	-	100	100	
Clay, Brick, Tile, Pipe	80	-	80	70	70	70	80	40	-	-	90	100	95	
Gypsum Batch Plants – Cement And Asphalt	-	-	90	70	-	80	-	60-90	60-90	-	-	100	100	
Metal Smelting and Refining	-	-	-	-	60	60	-	90	60-75	-	60	100	95	
Metal Products Fabrications	80	-	80	60	50	70	-	30	50-60	75	50	100	95	
Industrial and Construction Machinery Mfg.	-	-	-	-	-	-	-	-	-	-	-	80	80	
Electrical Equipment Manufacture	-	-	-	-	-	-	-	-	-	-	37	80	75	
Electronic Equipment Mfg.	-	-	-	-	-	-	-	-	-	-	20	80	50	
Trailers, Automotive Parts	-	-	-	-	-	-	-	-	-	-	60	100	80	
Aircraft and Aerospace Mfg.	-	-	-	-	-	-	-	-	-	-	20	80	70	
Scientific or Professional Equipment Mfg.	-	-	-	-	-	-	-	-	-	-	20	70	70	

LISTING OF STATE BOARD PROPERTY STATEMENTS

<u>Form Number</u>	<u>Title</u>	<u>Date</u>	<u>Supersedes Form Number</u>	<u>Dated</u>	<u># of Sheets (2 pgs /sheet)</u>
*AH 566-J	Oil, Gas and Geothermal Personal Property Statement (instructions on back)	8-19-81	AH 566-J	8-1-80	1
*AH 566-K	Annual Oil and Gas Operating Expense Data (front and back, two pages of instructions)	8-3-81	AH 566-K	7-31-80	2
*AH 567-D	Geothermal Production Report (front and back, 2 pages of instructions)	8-19-81	--	--	2
*AH-567-K	Annual Geothermal Operating Expense Data (front and back, 2 pages of instructions)	8-19-81	--	--	2
*AH 570-1-L	Supplementary Schedule to the Business Property Statement, Air Carrier's Operation Report-Flight Detail, Piston-Powered & Turboprop Types (14" x 8 ½") (instructions on back)	1-23-83	AH 570-1-L	2-1-82	1
*AH 570-1-S	Supplementary Schedule to the Business Property Statement, Air Carrier's Operation Report-Flight Detail, Jet Engine Types Only (14" x 8 ½") (instructions on back)	1-23-83	AH 570-1-S	2-1-82	1
*AH 570-2	Supplementary Schedule to the Business Property Statement, Air Carrier's Operation Report-Flight Equipment Value Computation (14" x 8 ½") (instructions on back)	1-23-83	AH 570-2	2-16-82	1

\*Prescribed by State Board of Equalization

Appendix 3  
Page 2 of 4

<u>Form Number</u>	<u>Title</u>	<u>Date</u>	<u>Supersedes</u>		<u># of Sheets (2 pgs /sheet)</u>
			<u>Form Number</u>	<u>Dated</u>	
*AH 570-3	Supplementary Schedule to the Business Property Statement, Air Carrier's Operation Report-Aircraft Value Computations (14" x 8 ½") (instructions on back)	7-31-80	AH 570-3	5-1-72	1
AH 571B	Equipment Replacement Cost Record (front only)	4-7-71	AH 571B	9-60	1
*AH 571-D	Supplemental Schedule for Reporting Monthly Acquisitions and Disposals of Property Reported on Schedule A and Schedule B of the Business Property Statement. (front and back)	8-2-84	--	--	1
*AH 571-F	Agricultural Property Statement (four pages of form, four pages of instructions)	8-2-84	AH 571-F	10-26-83	4
*AH 571-F-2	Supplementary Schedule to the Agricultural Property Statement, Registered and Show Horses Other Than Racehorses (instructions on back)	8-1-80	AH 571-F-2	10-15-79	1
*AH 571-J	Annual Racehorse Tax Return (front only, two pages of instructions)	7-1-83	AH 571-J	8-3-81	2
*AH 571-J-1	Annual Report of Boarded Racehorses (instructions on back)	7-1-83	AH 571-J-1	8-3-81	1

\*Prescribed by State Board of Equalization

<u>Form Number</u>	<u>Title</u>	<u>Date</u>	<u>Supersedes Form Number</u>	<u>Dated</u>	<u># of Sheets (2 pgs /sheet)</u>
*AH 571-K	Horse Property Statement (Other Than Racehorses)(front and back, two pages of instructions)	8-1-84	AH-571-K	7-1-83	2
*AH 571-L	Business Property Statement, long form (three pages of form printed vertically, four pages of instructions)	8-2-84	AH 571-L	10-26-83	4
*AH 571-L Supplement	Business Property Statement, long form (three pages of form Printed horizontally, four pages of instructions)	8-2-84	AH 571-L	10-26-83	4
*AH 571-L	Business Property Statement, supplemental schedule for Bank, Insurance Company, or Financial Corporation Fixtures (front only, instructions on back)	8-2-84	AH 571-L Supplement	10-26-84	1
*AH 571-M	Miscellaneous Property Statement (front only, includes instructions)	8-1-84	AH 571-M	10-26-83	1
*AH 571-R	Apartment House Property Statement (instructions on back)	8-1-84	AH 571-R	8-17-83	1
*AH 571-S	Business Property Statement, short form (front and back, four pages of instructions)	8-2-84	AH 571-S	10-26-83	3
AH 576-A	Vessel or Aircraft Form (front and back of card is on the front only)	8-3-81	AH 576-A	2-76	1
AH 576-B	Vessel Form (front and Back)	8-3-81	AH 576-B	2-76	1

\*Prescribed by State Board of Equalization

Appendix 3  
Page 4 of 4

<u>Form Number</u>	<u>Title</u>	<u>Date</u>	<u>Supersedes Form Number</u>	<u>Dated</u>	<u># of Sheets (2 pgs /sheet)</u>
AH 576-B-1	Vessel Owner's Report (front and back)	8-3-81	AH 576-B-1	2-76	1
AH 576-C	List of vessels (front only)	2-76	AH 576-C	6-7-73	1
*AH 576-D	Vessel Property Statement (instructions on back)	7-1-83	AH 576-D	7-1-82	1
*AH 576-E	Affidavit for 4-Percent Assessment of Certain Vessels (front only) (instructions on front)	10-1-81	AH 576-E	10-1-80	1
AH 577-A	Aircraft Form (front and back)	8-3-81	AH 577-A	2-76	1
AH 577-B	List of Aircraft (front only)	8-3-81	AH 577-B	4-11-72	1

\*Prescribed by State Board of Equalization

## CONSTITUTIONAL AND STATUTORY EXCERPTS

### A. CONSTITUTIONAL PROVISIONS

§ 27. Taxation of banks and corporations. The Legislature, a majority of the membership of each house concurring, may tax corporations, including State and national banks, and their franchises by any method not prohibited by this Constitution or the Constitution or laws of the United States. Unless otherwise provided by the Legislature, the tax on State and national banks shall be according to or measured by the net income and shall be in lieu of all other taxes and license fees upon banks or their shares, except taxes upon real property and vehicle registration and license fees.

§ 28. Taxation of insurance companies. (a) "Insurer," as used in this section, includes insurance companies or associations and reciprocal or interinsurance exchanges together with their corporate or other attorneys in fact considered as a single unit, and the State Compensation Insurance Fund. As used in this paragraph, "companies" includes persons, partnerships, joint stock associations, companies and corporations.

(b) An annual tax is hereby imposed on each insurer doing business in this state on the base, at the rates, and subject to the deductions from the tax hereinafter specified.

(c) In the case of an insurer not transacting title insurance in this state, the "basis of the annual tax" is, in respect to each year, the amount of gross premiums, less return premiums, received in such year by such insurer upon its business done in this state, other than premiums received for reinsurance and for ocean marine insurance.

In the case of an insurer transacting title insurance in this state, the "basis of the annual tax" is, in respect to each year, all income upon business done in this state, except:

- (1) Interest and dividends.
- (2) Rents from real property.
- (3) Profits from the sale or other disposition of investments.
- (4) Income from investments.

"Investments" as used in this subdivision includes property acquired by such insurer in the settlement or adjustment of claims against it but excludes investments in title plants and title records. Income derived directly or indirectly from the use of title plants and title records is included in the basis of the annual tax.

In the case of an insurer transacting title insurance in this state which has a trust department and does a trust business under the banking laws of this State, there shall be excluded from the basis of the annual tax imposed by this section, the income of, and from the assets of, such trust department and such trust business, if such income is taxed by the state or included in the measure of any tax imposed by this state.

(d) The rate of the tax to be applied to the basis of the annual tax in respect to each year is 2.35 percent.

(f) The tax imposed on insurers by this section is in lieu of all other taxes and licenses, state, county, and municipal, upon such insurers and their property, except:

(1) Taxes upon their real estate.

(2) That an insurer transacting title insurance in this state which has a trust department or does a trust business under the banking laws of this state is subject to taxation with respect to such trust department or trust business to the same extent and in the same manner as trust companies and the trust departments of banks doing business in this state.

(3) When by or pursuant to the laws of any other state or foreign country any taxes, licenses and other fees, in the aggregate, and any fines, penalties, deposit requirements or other material obligations, prohibitions or restrictions are or would be imposed upon California insurers, or upon the agents or representatives of such insurers, which are in excess of such taxes, licenses and other fees, in the aggregate, or which are in excess of the fines, penalties, deposit requirements or other obligations, prohibitions, or restrictions directly imposed upon similar insurers, or upon the agents or representatives of such insurers, of such other state or country under the statutes of this state; so long as such laws of such other state or country continue in force or are so applied, the same taxes, licenses and other fees, in the aggregate, or fines, penalties or deposit requirements or other material obligations, prohibitions, or restrictions of whatever kind shall be imposed upon the insurers, or upon the agents or representatives of such insurers, of such other state or country doing business or seeking to do business in California. Any tax, license or other fee or other obligation imposed by any city, county, or other political subdivision or agency of such other state or country on California insurers of their agents or representatives shall be deemed to be imposed by such state or country within the meaning of this paragraph (3) of subdivision (f).

The provisions of this paragraph (3) of subdivision (f) shall not apply as to personal income taxes, nor as to ad valorem taxes on real or personal property nor as to special purpose obligations or assessments heretofore imposed by another state or foreign country in connection with particular kinds of insurance, other than property insurance; except that deductions, from premium taxes or other taxes otherwise payable, allowed on account of real estate or personal property taxes paid shall be taken into consideration in determining the propriety and extent of retaliatory action under this paragraph (3) of subdivision (f).

For the purposes of this paragraph (3) of subdivision (f) the domicile of an alien insurer, other than insurers formed under the laws of Canada, shall be that state in which is located its principal place of business in the United States.

In the case of an insurer formed under the laws of Canada or a province thereof, its domicile shall be deemed to be that province in which its head office is situated.

The provisions of this paragraph (3) of subdivision (f) shall also be applicable to reciprocals or interinsurance exchanges and fraternal benefit societies.

(4) The tax on ocean marine insurance.

(5) Motor vehicle and other vehicle registration license fees and any other tax or license fee imposed by the state upon vehicles, motor vehicles or the operation thereof.

(6) That each corporate or other attorney in fact of a reciprocal or interinsurance exchange shall be subject to all taxes imposed upon corporations or others doing business in the State, other than taxes on income derived from its principal business as attorney in fact.

A corporate or other attorney in fact of each exchange shall annually compute the amount of tax that would be payable by it under prevailing law except for the provisions of this section, and any management fee due from each exchange to its corporate or other attorney in fact shall be reduced pro tanto by sum equivalent to the amount so computed.

(g) Every insurer transacting the business of ocean marine insurance in this state shall annually pay to the state a tax measured by that proportion of the underwriting profit of such insurer from such insurance written in the United States, which the gross premiums of the insurer from such insurance written in this state bear to the gross premiums of the insurer from such insurance written within the United States, at the rate of 5 per centum, which tax shall be in lieu of all other taxes and licenses, state, county and municipal, upon such insurer, except taxes upon real estate, and such other taxes as may be assessed or levied against such insurer on account of any other class of insurance written by it. The Legislature shall define the terms "ocean marine insurance" and "underwriting profit," and shall provide for the assessment, levy, collection and enforcement of the ocean marine tax.

(h) The taxes provided for by this section shall be assessed by the State Board of Equalization.

(i) The Legislature, a majority of all the members elected to each of the two houses voting in favor thereof, may by law change the rate or rates of taxes herein imposed upon insurers.

(j) This section is not intended to and does not change the law as it has previously existed with respect to the meaning of the words "gross premiums, less return premiums, received" as used in this article.

B. ADMINISTRATIVE CODE (TITLE 18)

Property Tax Rules

Rule No. 133. Business Inventory Exemption

(a) SCOPE OF EXEMPTION.

(1) "Business inventories" that are eligible for exemption from taxation under Section 129 of the Revenue and Taxation Code include all tangible personal property, whether raw materials, work in process or finished goods, which will become a part of or are themselves items of personalty held for sale or lease in the ordinary course of business. Included in business inventories are containers or container material such as kegs, bottles, cases, twine and wrapping paper, whether returnable or not, if title thereto will pass to the purchaser or lessee of the product to be sold or leased therein. Materials such as lumber, cement, nails, steel beams, columns, girders, etc., held by a licensed contractor for incorporation into real property are eligible for the exemption, providing the real property will not be retained for the licensed contractor's use. Also included are crops and animals held primarily for sale or lease and animals used in the production of food or fiber and feed for animals in either category.

(2) The phrase "ordinary course of business" does not constitute a limitation on the type of property which may be held for sale or lease, but it does require that the property be intended for sale or lease in accordance with the regular and usual practice and method of the business of the vendor or lessor.

(3) The phrase "goods intended for sale or lease" means property acquired, manufactured, produced, processed, raised or grown which is already the subject of a contract of sale or which is held and openly offered for sale or lease or will be so held and offered for sale or lease at the time it becomes a marketable product. Property which is read for sale or lease must be displayed, advertised or otherwise brought to the attention of the potential purchasers or lessees by means normally employed by vendors or lessors of the product.

(b) EXCLUSIONS. Property eligible for the "business inventories" exemption does not include:

(1) Property of any description in the hands of a vendee, lessee or other recipient on the lien date which has been purchased, leased, or borrowed primarily for use by the vendee, lessee or other recipient of the property rather than for sale or lease or for physical incorporation into a product which is to be sold or leased. Examples of property excluded from business inventories are office supplies, furniture, machines and equipment and manufacturing machinery, equipment and supplies such as dies, patterns, jigs, tooling or chemicals used to produce a chemical or physical reaction, and contractors' supplies, tools, concrete forms, and other items that will not be incorporated into and become a part of the real property. Also ineligible are materials that a contractor is holding to incorporate into real property that will be retained for his own use.

(2) Any tangible personal property that is classified by law for the purpose of assessment or taxation in a different proportion to its value than is applicable to real property.

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

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

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

(6) 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.

(7) 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.

(8) Property which had escaped assessment as of the filing of the roll pursuant to Section 616 of the Revenue and Taxation Code, but has subsequently been assessed under the provisions of Sections 531.3 or 531.4 of the Revenue and Taxation Code, except that such assessments for the tax years 1975-76 through 1979-80 shall result in loss of exemption only when the assessment includes the penalty provided by Section 504 of the Revenue and Taxation Code.

(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 to the customer 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 kept 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.

Rule No. 171. Board-Prescribed Forms and Property Statements

(a) CONTENT, ARRANGEMENT, AND APPROVAL OF PROPERTY STATEMENTS. Except as specifically authorized by the board with respect to heading, name and address of the taxpayer, location of the property, assessors' use columns, and the like, the assessor shall not change, add to, or delete the specific wording of property statement forms or mineral production report forms prescribed by the board or change the sequence of the questions, but he may otherwise arrange the content and alter the size and design of a property statement or mineral production report form to meet the needs of his office procedures and facilities. Annually, on or before October 15, the assessor shall notify the board, on a check list provided by the board, of those board-prescribed property statement and report forms, including instructions, which he will reproduce from the current prototype forms and instructions distributed by the board for use for the succeeding assessment year, those forms and instructions which he will produce by other means for use for that year, and those for which he will have no need. When filing the check list, he shall submit to the board in duplicate for approval a draft copy of each form, including instructions, which he will produce by means other than reproduction of prototypes. If a draft copy does not conform with the specifications prescribed by the board, as required by Section 452 of the Revenue and Taxation Code, Section 15606 of the Government Code, and this rule, the assessor shall be notified in writing of the variances. He shall submit a revised draft within 30 days of the date of the notice. Not later than February 10, annually, the assessor shall submit to the board a printed copy of each property statement and mineral production report form and its accompanying instructions.

(b) ATTACHMENTS TO PROPERTY STATEMENTS. The assessor is not required to obtain board approval for instructions pertaining to the format of attachments that an assessee elects to furnish in lieu of entering the information on the prescribed property statement. However, such instructions shall include requirements that at least one copy of the property statement as printed by the assessor must be executed and contain appropriate references to the data on the attachment, and that all information required by the property statement must be furnished on the property statement or the attachments.

(c) TIME FOR FILING MINERAL PRODUCTION REPORTS. The assessor shall not require the filing of mineral production reports prior to April following the calendar year for which the report is prepared.

(d) ASSESSOR TO FURNISH PROPERTY STATEMENTS. The pertinent property statement form and instructions shall be furnished by the assessor to every person required by law or requested by the assessor to file a property statement, and the pertinent report form shall be furnished by him to every person requested to file a mineral production report.

If a person had business personal property and fixtures subject to general property tax at a given location in the previous year whose assessment was based on a full cash value amounting to \$200,000 or more and is not required to report such property on another of the board-prescribed forms, the assessor shall employ the long form of business property statement for any such person who is required to file a statement. If a person had personal property subject to general property tax at a given location in the previous year whose assessment was based on a full cash value of less than \$200,000 and is not required to report such property on another of the board-prescribed forms, the assessor may employ either the long or the short form of business property statement for any such person who is required to file a statement. If a person had personal property subject to general property tax, whether business property or not, whose assessment at a given location in the previous year was based on a full cash value of less than \$10,000 and is not required to report his property on another of the board-prescribed forms, the assessor may employ either the long or the short form of the business property statement of the miscellaneous property statement for any such person who is required to file a statement.

Rule No. 172.      Execution of Property Statements and Mineral Production Reports

(a) Property statements and mineral production report forms prescribed by the board and filed with the assessor or the board shall be signed by the assessee, a partner, a duly appointed fiduciary, or an agent. When signed by an agent employee other than a member of the bar, a certified public accountant, a public account, or a duly appointed fiduciary, the assessee's written authorization of the agent or employee to sign the statement on behalf of the assessee shall be filed with the assessor. The assessor may at any time require a person who signs a property statement and who is required by this section to have written authorization to provide proof of his authorization.

(b) In the case of a corporate assessee, the property statement and mineral production report shall be signed by an officer or by an employee or agent whom the board of directors has designated in writing (other than those excepted in (a) above), by name or by title, to sign such statements on behalf of the corporation. The board of directors may appoint a person or persons to designate such employee or agent. A record of the written authorization or the appointment and designation required by this subsection shall be retained by the assessee for a period of six years from the date of its execution.

(c) Property statements and mineral production reports, regardless of where executed, shall be declared to be true and correct and be signed under the penalty of perjury.

(d) Neither the assessor nor the board shall knowingly accept any signed property statement or mineral production report that is not executed in accordance with the requirements of this section.

(e) A property statement or a mineral production report that is unsigned does not constitute a valid filing. The penalty imposed by Section 463 of the Revenue and Taxation Code for failure to file shall be applicable to unsigned property statements.

Rule No. 191. Property Tax Audits, General

The purpose of the audit is to collect data relevant to the determination of taxability, situs, and value of property. When an audit is to be made, the assessor, his deputy, or his authorized agent shall inform the taxpayer and arrange for the time and place to begin the audit. Upon completion of the audit, the taxpayer shall be given the auditor's findings in writing with respect to data which would alter any previously enrolled assessment. The taxpayer shall be given an opportunity to make written and/or oral response thereto, and his written comments shall become part of the audit report.

After having considered the results of the audit, including discussions with and written comments of the taxpayer, the assessor shall inform the taxpayer of his conclusions as to the value of the property and may (1) cause an escape assessment to be made, (2) make an assessment subject to penalty, or (3) inform the taxpayer of his right to a cancellation of assessment or a refund of taxes.

Rule No. 192. Mandatory Audits

(a) **HOLDINGS EQUALING OR EXCEEDING \$200,000 IN FOUR CONSECUTIVE YEARS.** When a taxpayer engaged in a profession, trade or business owns, claims, possesses, or controls locally assessable fixtures and business tangible personal property in any county which according to the assessor's records, has a combined full value of \$200,000 or more on the 1976 lien date or any succeeding lien date and remains at or above the minimum for at least the next three lien dates, the assessor shall complete an audit of his books and records (1) at least once within the four fiscal years following the first of such four consecutive lien dates, and (2) at least once thereafter within each four-year period following the latest fiscal year covered by the preceding audit until relieved of this responsibility by subdivision (b) of this section.

(b) **HOLDINGS FALLING BELOW THE MINIMUM.** After such a taxpayer's holdings fall below \$200,000 on any one lien date, the assessor shall not be required to audit his books and records for that lien date and subsequent lien dates until his holdings again equal or exceed \$200,000 on four consecutive lien dates.

(c) **FARMING.** For purposes of this rule, farming is a business. The assessor, when making an audit pursuant to this section of a farming or ranching operation, shall determine whether any racehorses are taxable to the same taxpayer pursuant to part 12 of Division 1 of the Revenue and Taxation Code have been under-reported or escaped assessment.

(d) **DEFINITIONS.** "Holdings" means the taxable value of locally assessable fixtures and the full cash value of locally assessable business personal property in the county. A "fiscal year" is the governmental fiscal report, year of July 1 through June 30. "Fixtures" means any fixtures whose use or purpose directly applies to or augments the process of function of a profession, trade, or business.

(e) **OTHER AUDITS.** Nothing herein shall be construed to prohibit an assessor from auditing the books and records of any taxpayer or for any period for which audits are not required by paragraph (a).

Rule No. 193. Scope of Audit

(a) When auditing a taxpayer under the requirements of Section 192, an assessor may audit for only one of the fiscal years within the period specified in Section 532 of the Revenue and Taxation Code if no discrepancy or irregularity is found in the fiscal year selected for audit. When a discrepancy or irregularity is found in the fiscal year first selected for audit, the assessor shall audit the remaining fiscal years for which the statute of limitations has not run unless he documents in the audit report his conclusion both (1) that the discrepancy or irregularity in the fiscal year first selected is peculiar to that fiscal year and (2) that the discrepancy or irregularity did not permit the assessment of an escape under the provisions of Sections 502, 503, 531.3 or 531.4 of the Revenue and Taxation Code.

(b) If property of a taxpayer who meets the requirements of Section 192 is selected by the board as an assessment sample item as part of its assessment practices surveys, the assessor of the county surveyed may consider the audit findings of the board's Assessment Standards Division as the fulfillment of Section 192 providing no discrepancy or irregularity exists between the findings and the corresponding property statement or report and providing he maintains a copy of such findings in his files. If the assessor determines that the findings disclose a discrepancy or irregularity between the taxpayer's books and records and the corresponding property statement or he shall ascertain the cause and audit all years within the statute of limitations applicable to escape assessments.

(c) Nothing herein shall be construed to prohibit an assessor from auditing or reauditing any or all statements or reports for which the statute of limitations has not run or to define the circumstances in which property that has escaped assessment can be added to the roll.

#### C. CORPORATIONS CODE

§1506. Records to be made available by domestic or foreign corporation on request of assessor. Upon request of an assessor, a domestic or foreign corporation owning, claiming, possessing or controlling property in this state subject to local assessment shall make available at the corporation's principal office in California or at a place mutually acceptable to the assessor and the corporation a true copy of business records relevant to the amount, cost and value of all property that it owns, claims, possesses or controls within the county.

#### D. GOVERNMENT CODE

§15624. Advisory service by board. When requested by the legislative body of any county, city, or city and county or the assessor to render advisory or other service, other than those services specified in this chapter, the board may contract, at not less than cost and subject to regulations approved by the Director of General Services, to render such services.

#### E. REVENUE AND TAXATION CODE

§219. Business inventories and exemption. For the 1980-81 fiscal year and fiscal years thereafter, business inventories are exempt from taxation and the assessor shall not assess business inventories.

§441. Property statement; other information. Every person owning taxable personal property, other than a mobilehome subject to Part 13 (commencing with Section 5800), having an aggregate cost of thirty thousand dollars (\$30,000) or more shall file a signed property statement with the assessor. Every person owning personal property which does not require the filing of a property statement or real property shall upon request of the assessor file a signed property statement. Failure of the assessor to request or secure the property statement does not render any assessment invalid.

(a) The property statement shall be declared to be true under the penalty of perjury and filed with the assessor between the lien date and 5 p.m. on the last Friday in May, annually, or between the lien date and such earlier time as the assessor may appoint.

(b) If the assessor appoints a time other than the last Friday in May, it shall be no earlier than April 1. In this event the penalty provided by Section 463 shall apply if the property statement is not filed with the assessor by 5 p.m. on the last Friday in May or if:

(1) The property statement is not filed within the time appointed by the assessor; and

(2) The assessor has given notice by certified or registered mail, or by first-class mail, properly addressed with postage prepaid, no earlier than 15 days after the time appointed by the assessor of nonreceipt of the property statement within the appointed time. If such notice is given by first-class mail, the assessor shall obtain a certificate of mailing issued by the United States Postal Service verifying the fact and date of mailing of such notice; and

(3) The property statement has not filed with the assessor within 15 days following the date of receipt of such notice, if such notice is given by certified or registered mail, or within 20 days following the date shown on the certificate of mailing, if such notice is given by first-class mail.

(c) The property statement may be filed with the assessor through the United States mail, properly addressed with postage prepaid. This subdivision shall be applicable to every taxing agency, including but not limited to, a chartered city and county, or chartered city.

(d) At any time, as required by the assessor for assessment purposes, every person shall make available for examination information or records regarding his property. In this connection details of property acquisition transactions, construction and development costs, rental income, and other data relevant to the determination of an estimate of value are to be considered as information essential to the proper discharge of the assessor's duties.

(e) In the case of a corporate owner of property, the property statement shall be signed either by an officer of the corporation or an employee or agent who has been designated in writing by the board of directors to sign such statements on behalf of the corporation.

(f) The assessor may refuse to accept any property statement he determines to be in error.

§441.5. Property statement; attachments. In lieu of completing the property statement as printed by the assessor pursuant to Section 452, the information required of the taxpayer may be furnished to the assessor as attachments to the property statement provided that the attachments shall be in a format as specified by the assessor and that one copy of the property statement, as printed by the assessor, is executed by the taxpayer and carries appropriate reference to the data attached.

§425. Contents of statement. The property statement shall show all taxable property owned, claimed, possessed, controlled, or managed by the person filing it and required to be reported thereon.

Every person owning, claiming, possessing, controlling or managing property shall furnish any required information or records to the assessor for examination at any time.

The requirements of this article shall be satisfied with respect to property belonging to others for which the declarer has contractual property tax obligations if the declarer includes that property in the property statement, submits the statement timely, and includes in the statement all information required in the statement pertaining to property belonging to others.

§443. Situs. The property statement shall also show:

- (a) The county where the property is taxable.
- (b) If taxable in the county where the statement is made, any city or revenue district where it is situated.

§443.1. Filing duplicate statement. If the property statement is timely filed in duplicate with a request that the assessor mark on the duplicate statement opposite each category of property reported on the statement, the full value of such category of property as determined by the assessor, the assessor shall perform such service and shall return the duplicate to the person filing it no later than July 15 of the year in which it was filed.

§445. Property statements; contents. The property statement shall show a description of property, in the detail required. Such required detail may include the cost of the property if the information is within the knowledge of the assessee or is available to him from his own or other records.

§448. Tax day. The property statement shall show all information as of 12:01 a.m. on the lien date.

§451. Information held secret. All information requested by the assessor furnished in the property statement shall be held secret by the assessor. The statement is not a public document and is not open to inspection, except as provided in Section 408.

§452. Property statement forms. For the assessment year beginning in 1968 and each assessment year thereafter, the board shall prescribe in detail the content of property statements, including the specific wording, to be used by all assessors in the several counties, and cities and counties, and shall notify assessors of such specifications at least six months prior to the tax lien date on which they become effective. Each assessor shall incorporate the specifications on the exact form he proposes to use and submit such form to the board for approval prior to use. The property statement shall not include any question which is not germane to the assessment function.

§453. Affidavits. The assessor may request any person found within his county to make and subscribe an affidavit, showing his name, place of residence or place of business, and whether he is the owner of any taxable property.

§454. Examinations. The assessor may subpoena and examine any person in relation to:

- (a) any statement furnished him, or
- (b) any statement disclosing property assessable in his county that may be stored with, possessed, or controlled by the person.

He may do this in any county where the person may be found, but shall not require the person to appear before him in any other county other than that in which the subpoena is served.

§460. Unknown owners. If the owner or claimant of any property, not listed by another person, is absent or unknown, the assessor shall estimate its value.

§461. False statement. Every person who willfully states anything which he knows to be false in any oral or written statement, not under oath, required or authorized to be made as the basis of imposing any tax or assessment, is guilty of a misdemeanor and upon conviction thereof may be punished by imprisonment in the county jail for a period not exceeding six months or by a fine not exceeding one thousand dollars (\$1,000), or by both.

§462. Refusal to give information. Every person is guilty of a misdemeanor who, after written request by the assessor, does any of the following:

- (a) Refuses to make available to the assessor any information which is required by subdivision (d) of Section 441 of this code.
- (b) Gives a false name.
- (c) Willfully refuses to give his true name.

Upon conviction of any offense in this section, the defendant may be punished by imprisonment in the county jail for a period not exceeding six months or by a fine not exceeding one thousand dollars (\$1,000), or by both.

If the defendant is a corporation, it may be punished by an additional fine of two hundred dollars (\$200) for each day it refuses to comply with the provisions of this section, up to a maximum of twenty thousand dollars (\$20,000).

§463. Penalty for failure to file statement. If any person who is required by law or is requested by the assessor to make an annual property statement fails to file it with the assessor by 5 p.m. on the last Friday in May, or if, after written request by the assessor, any person fails to file an annual property statement within the time limit specified by Section 441 or make and subscribe the affidavit respecting his name and place of residence, a penalty on 10 percent of the assessed value of the unreported taxable tangible property of such person placed on the current roll shall be added to the assessment made on the current roll.

Notice of any penalty added to the secured roll pursuant to this section shall be mailed by the assessor to the assessee at his address as contained in the official records of the county assessor.

If the assessee establishes to the satisfaction of the county board of equalization or the assessment appeals board that the failure to file the property statement within the time required by Section 441 was due to reasonable cause and not due to willful neglect, it may order the penalty abated, provided the assessee has filed with the county board written application for abatement of the penalty within the time prescribed by law for the filing of applications for assessment reductions.

If the penalty is abated it shall be canceled or refunded in the same manner as an amount of tax erroneously charged or collected.

§468. Failure to furnish information; assessor's remedy. In addition to any other remedies described in this article, if any person fails to furnish any information or records required by this article upon request by the assessor, the assessor may apply to the superior court of the county for any order requiring the person who failed to furnish such information or records to appear and answer concerning his property before such court at a time and place specified in the order. The court may so order in any county where the person may be found, but shall not require the person to appear before the court in any other county than that in which the subpoena is served.

§469. Audit of profession, trade, or business. 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 two hundred thousand dollars (\$200,000) or more, the assessor shall audit the books and records of such profession, trade, or business at least once each four years. If the board determines the value of property pursuant to Section 15640 of the Government Code, such determination may be deemed an audit by the assessor for purposes of this section.

Equalization of the property by a county board of equalization or assessment appeals board pursuant to Chapter 1 (commencing with Section 1601) of Part 3 of this division shall not preclude a subsequent audit and shall not preclude the assessor from levying an escape assessment in appropriate instances, but shall preclude an escape assessment being levied on that portion of any such assessment which was the subject of any such equalization hearing.

If the result of an audit for any year discloses property subject to an escape assessment, then the original assessment of all property of the assessee at the location of the profession, trade, or business for that year shall be subject to review, equalization and adjustment by the county board of equalization or assessment appeals board pursuant to Chapter 1 (commencing with Section 1601) of Part 3 of this division, except in those instances when such property had previously been equalized for the year in question.

If the audit for any particular tax year discloses that the property of the taxpayer was incorrectly valued or misclassified for any cause, to the extent that this error caused the property to be assessed at a higher value than the assessor would have entered on the roll had such incorrect valuation or misclassification not occurred, then the assessor shall notify the taxpayer of the amount of the excess valuation or misclassification, and the fact that a claim for cancellation or refund may be filed with the county as provided by Sections 4986 and 5096.

§470. Business records. Upon request of an assessor, a person owning, claiming, possessing or controlling property subject to local assessment shall make available at his principal place of business, principal location or principal address in California or at a place mutually agreeable to the assessor and the person, a true copy of business records relevant to the amount, cost and value of all property that he owns, claims, possesses or controls within the county.

§501. Failure to furnish information. If after written request by the assessor, any person fails to comply with any provision of law for furnishing information required by Sections 441 and, 470, the assessor, based upon information in his possession, shall estimate the value of the property and, based upon this estimate, promptly assess the property.

§502. Concealment, etc., of tangible personal property. If any person willfully conceals, fails to disclose, removes, transfers or misrepresents tangible personal property to evade taxation which results in an assessment lower than that which would otherwise be required by law, the assessor on discovery shall assess the property in the lawful amount and impose the penalty provided for in Section 504.

§503. Fraudulent act, collusion, causing escape of taxable tangible property. If any taxpayer or his agent through a fraudulent act or omission causes, or if any fraudulent collusion between the taxpayer or his agent and the assessor or any of his deputies causes, any taxable tangible property to escape assessment in whole or in part, or to be underassessed, the assessor shall assess the property in the lawful amount and impose the penalty provided for in Section 504.

§504. Penalty assessments; amounts. There shall be added to any assessment made pursuant to Sections 502 or 503, except such assessments as are placed in the current roll prior to the time it is originally completed and published, a penalty of 25 percent of the additional assessed value so assessed.

§505. Entry by assessor. The assessor shall make an assessment subject to penalty by entering on the local roll the assessment and penalty in such form and manner as prescribed by the board.

§506. Tax rate applicable, interest. The tax rate applicable to any assessment made pursuant to this article shall be the tax rate to which the property would have been subject if it appeared upon the roll in the year when it should have been lawfully assessed. To the tax there shall be added interest at the rate of three-fourths of 1 percent per month from the date or dates the taxes would have become delinquent if they had been timely assessed to the date the additional assessment is added to the assessment roll.

§531. Escaped property. If any property belonging on the local roll has escaped assessment, the assessor shall assess the property on discovery at its value on the lien date for the year for which it escaped assessment. It shall be subject to the tax rate in effect in the year of its escape except as provided in Section 2905 of this code.

Property shall be deemed to have escaped assessment when its owner fails to file a property statement pursuant to the provisions of Section 441, to the extent that this failure results in no assessment or an assessment at a valuation lower than would have obtained had the property been properly reported. Escape assessments made as the result of an owner's failure to file a property statement as herein provided shall be subject to the penalty and interest imposed by Sections 463 and 506, respectively. This paragraph shall not constitute a limitation on any other provision of this article.

§531.1. Escaped property, incorrect exemption. Upon receipt of notice pursuant to Section 284, or upon indication from any audit or other source that an exemption has been incorrectly allowed, the assessor shall make a redetermination of eligibility for the exemption. If an exemption or any portion of an exemption has been incorrectly allowed, an escape assessment in the amount of the exemption, or that portion of the exemption that has been erroneously allowed, with interest as provided in Section 506, shall be made; except that where the exemption or a portion of the exemption was allowed as the result of an assessor's error, the amount of interest shall be forgiven. If the exemption was incorrectly allowed because of erroneous or incorrect information submitted by the claimant with knowledge that such information was erroneous or incomplete, the penalty provided in Section 504 shall be added to the assessment.

§531.3. Escaped personal property, failure to report cost accurately. If the assessor requires an assessee to describe personal property in such detail as shows the cost thereof but the assessee omits to report the cost of the property accurately, notwithstanding that this information is available to the assessee, to the extent that this omission on the part of the assessee causes the assessor not to assess the property or to assess it at a lower valuation than he would enter upon the roll were the cost reported to him accurately, that portion of the property as to which the cost is unreported, in whole or in part, shall be assessed as required by law. If the omission is willful or fraudulent, the penalty and interest provided in Sections 504 and 506 shall be added to the additional assessment; otherwise only the interest provided in Section 506 shall be so added.

§531.4. Escaped business property, inaccurate statement or report. When an assessee files with the assessor a property statement or report on a form prescribed by the board with respect to property held or used in a profession, trade or business and the statement fails to report any taxable tangible property accurately, regardless of whether this information is available to the assessee, to the extent that this failure causes the assessor not to assess the property or to assess it at a lower valuation than he would enter on the roll if the property had been reported to him accurately, that portion of the property which is not reported accurately, in whole or in part, shall be assessed as required by law. If the failure to report the property accurately is willful or fraudulent, the penalty and interest provided in Sections 504 and 506 shall be added to the additional assessment; otherwise only the interest provided in Section 506 shall be added.

§531.5. Escaped property, business inventory exemption. If a business inventories exemption has been incorrectly allowed because of erroneous or incorrect information submitted by the taxpayer or his agent misclassifying as business inventories property not includible in "business inventories," as that term is defined in Section 129, an escape assessment in the amount of the exemption shall be made on discovery of the error. Interest shall be added to the assessment in the amount and manner provided by Section 506. If the exemption was incorrectly allowed because of erroneous or incorrect information submitted by the taxpayer or his agent with knowledge that such information was erroneous or incorrect, the penalty provided in Section 504 shall be added to the assessment.

§532. Statute of limitations. Any assessment to which the penalty provided for in Section 504 must be added shall be made within six years after July 1 of the assessment year in which the property escaped taxation or was underassessed. Any other assessment made pursuant to Article 3 (commencing with Section 501) of this chapter, or pursuant to this article shall be made within four years after July 1 of the assessment year in which the property escaped taxation or was underassessed.

§532.1. Extension of time for making escape assessment. If, before the expiration of the period specified in Section 532 for making an escape assessment, the taxpayer and the assessor have agreed in writing to extend the time for making an assessment, correction, or claim for refund, the assessment may be made at any time prior to the expiration of the period agreed upon. The period may be extended by subsequent agreements in writing made before the expiration of the period previously agreed upon.

§532.3. Escape assessments. Notwithstanding the provisions of Section 532, any property which escaped taxation or was underassessed for the 1975-76 fiscal year may be assessed; provided, such assessment is made on or before June 30, 1980.

§533. Entry on roll. Assessments made pursuant to Article 3 (commencing with Section 501) of this chapter or pursuant to this article shall be entered on the roll for the current assessment year as defined in Section 118 and, if this is not the roll for the assessment in which the property escaped assessment, the entry shall be followed with "Escaped assessment for year 19\_\_ pursuant to Sections \_\_\_\_\_ of the Revenue and Taxation Code."

If the assessments are made as a result of an audit which discloses that property assessed to the party audited has been incorrectly assessed either for a past tax year for which taxes have been paid and a claim for refund is not barred by Section 5097 or for any tax year for which the taxes are unpaid, the tax refunds resulting from the incorrect assessments shall be an offset against proposed tax liabilities, including accumulated penalties and interest, resulting from escaped assessments for any tax year covered by the audit.

Beginning with the 1981-82 fiscal year, assessment for the current and prior year shall be entered using a 100 percent assessment ratio and the tax rate for years prior to the 1981-82 fiscal will be divided by four.

If such tax refunds exceed any proposed tax liabilities, including accumulated penalties and interest, the party audited shall be notified by the tax collector of the amount of the excess and of the fact that a claim for cancellation or refund may be filed with the county as provided by Section 5096 and 5096.7. In the event that the assessment caused an excess payment of taxes and therefore resulted in an overpayment by the state for property tax relief as provided by Section 219, then subsequent subventions for property tax relief shall be reduced by the amount of such overpayment.

§534. Procedure after assessment. Assessments made pursuant to Article 3 (commencing with Section 501) of this chapter or pursuant to this article shall be treated like, and taxed at the same rate applicable to, property regularly assessed on the roll on which is it entered, unless the assessment relates to a prior year and then the tax rate of the prior year shall be applied, except that the tax rate for years prior to the 1981-82 fiscal year shall be divided by four.

No such assessment shall be effective for any purpose, including its review, equalization and adjustment by the Board of Equalization, until the assessee has been notified thereof personally or by the United States mail at his address as contained in the official records of the county assessor. For purposes of Section 532, such assessment shall be deemed made on the date which it is entered on the roll pursuant to Section 533 if the assessee is notified of the assessment within 60 days after the statute of limitations or the placing of the escape assessment on the assessment roll; otherwise, such assessment shall be deemed made only on the date the assessee is so notified. Receipt of the assessee of a tax bill based on such assessment shall suffice as such notice.

§619.2. Notification of assessment; personal property. Where the personal property on the secured roll of a person not required to file a property statement pursuant to Section 441 is assessed in excess of one thousand dollars (\$1,000), excluding household furnishings and personal effects, the assessor, on or before July 15, may notify the assessee of the full value, the assessed value of such property, and the ratio used in the manner prescribed by Sections 619 and 619.1.

If the assessee does not receive notice of the assessment pursuant to this section, the assessee may pay taxes based upon such assessment under protest and obtain equalization of the assessment in the same manner as set forth in Section 620.

§670. Appraiser's certificate.

(a) No person shall perform the duties or exercise the authority of an appraiser for property tax purposes as an employee of the state, any county or city and county, or city, either general law or chartered, unless he is the holder of a valid appraiser's or advanced appraiser's certificate issued by the State Board of Equalization.

(b) The board shall provide for the examination of applicants for such certificates and may contract with the State Personnel Board to give such examinations. Examinations shall be prepared by the board with the advice and assistance of a committee of five assessors selected by the State Association of County Assessors for this purpose. No certificate shall be issued to any person who has not attained a passing grade in such examination and demonstrated to the board that he is competent to perform the work of an appraiser as such competency is defined in regulations duly adopted by the board; provided, however, that any applicant for a certificate who is denied the same shall have a right to review of such denial in accordance with the same shall have a right to review of such denial in accordance with the State Administrative Procedure Act contained in Chapter 5 (commencing with Section 11500) of Part 1 of Division 3 of Title 2 of the Government Code.

(c) Passage of a civil service or merit system examination for appraiser given by the state or any county or city and county or city shall suffice to meet the requirements of this section. The scope of such examination shall be approved by the Board of Equalization.

(d) No employee of the state, any county, city and county, or city shall perform the duties or exercise the authority of an auditor or an auditor-appraiser under Section 469 or Section 15624 of the Government code, unless he holds a degree with a specialization in accounting from a recognized institution of higher education, or is a licensed accountant in the State of California, or has passed the state, or a county, or city and county, or city civil service or merit system examination regularly given for the position of accountant or auditor by the testing body.

(e) This section does not apply to elected officials.

(f) No charge shall be made to counties or to applicants for examinations and certifications under this section or for training conducted by the board under Section 671.

§1605. Notice and review of assessment made outside regular period.

(a) An assessment made outside of the regular assessment period is not effective for any purpose, including its review, equalization and adjustment by the county board, until the assessee has been notified thereof personally or by United States mail at his address as contained in the official records of the county assessor. Receipt by the assessee of a tax bill based on said assessment shall suffice as such notice.

(b) Upon application for reduction pursuant to subdivision (a) of Section 1603, such assessment shall be subject to review, equalization and adjustment by the county board. The application must be filed with the clerk no later than 60 days after the date on which the assessee was notified.

(c) In counties where assessment appeals boards have not been created and are not in existence, at any regular meeting, the board of supervisors, on the request of the assessor or any taxpayer, shall sit as the county board to equalize any assessments made by the assessor outside the regular assessment period for such assessments. Notwithstanding any other provision of law to the contrary, in any county in which assessment appeals boards have been created and are in existence, the time for equalization of assessments made outside the regular assessment period for such assessments, including assessments made pursuant to Sections 501, 503, 504, 531, and 531.1 shall be prescribed by rules adopted by the board of supervisors.

(d) If an audit of the books and records of any profession, trade, or business pursuant to Section 469 of this code discloses property subject to an escaped assessment for any years, then the original assessment of all property of the assessee at the location of the profession, trade, or business for that year shall be subject to review, equalization and adjustment by the county board of equalization or assessment appeals board pursuant to Chapter 1 (commencing with Section 1601) of Part 3 of this division, except in those instances when such property had previously been equalized for the year in question by the county board of equalization or assessment appeals board. The application must be filed with the clerk no later than 60 days after the date on which the assessee was notified.

§4831. Assessor's errors.

(a) Any error resulting in incorrect entries on the roll may be corrected under this article. The correction may be made at any time after the roll is delivered to the auditor but shall be made within four years after the making of the assessment which is being corrected. This section does not apply to either of the following:

(1) Errors involving the exercise of value judgments.

(2) Escape assessments caused by the assessee's failure to report the information required by Article 2 (commencing with Section 441) of Chapter 3 of Part 2.

If any error referred to in this subdivision is discovered as the result of an audit of a taxpayer's books and records, that error may be corrected at any time prior to the expiration of six months after the completion of the audit.

(b) Taxes which are not a lien or charge on the property assessed may be transferred from the secured roll to the unsecured roll of the corresponding year by the county auditor on order of the board of supervisors with the written consent of their legal counsel. These taxes shall be collected in the same manner as other delinquent taxes on the unsecured roll and shall be subject to delinquent penalties in the same manner as taxes transferred to the unsecured roll under Section 5090. The statute of limitations for the collection of those taxes shall commence to run from the date of transfer.

(c) Any liens created pursuant to this section prior to the effective date of Chapter 1190 of the Statutes of 1973 (January 1, 1974), shall have the force, effect and priority of a judgment lien, and shall continue for 10 years from the time of recording of the certificate authorized under this section unless sooner released or otherwise discharged.

§4831.5. Correction of errors caused by the assessee. When it can be ascertained by the assessor from an audit of an assessee's books of account or other papers that there has been a defect of description or clerical error of the assessee in his property statement or in other information or records furnished to the assessor which caused the assessor to assess taxable tangible property which should not have been assessed or to assess it at a substantially higher valuation than he would have entered on the roll if the information had been correctly furnished to the assessor, the error on the roll may be corrected under this article at any time after the roll is delivered to the auditor by the clerk of the county board and within the time allowed for assessing property which has escaped assessment as provided in Sections 532 and 532.1. The extent and character of the change to be made on the roll shall be certified to the auditor by the assessor.

§5365. Statement. 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.

§5366. Airport operators required to file statement. Owners, as well as operators, or private and public airports shall, within 15 days following the lien date of each year, provide the assessor of the county in which the airport is situated with a statement containing a list of names and addresses of the owners, and the make, model, and aircraft registration number, of all aircraft which were using the airport as a base. The assessors of each county shall, not later than July 1, 1970, and not later than the first day of July of each year thereafter, provide the California Department of Aeronautics a statement containing a list of names, addresses of owners, make, model, aircraft registration number and assessed value of all aircraft which were using airports in the county as a base.

§5367. Penalty; failure to file statement. If any person who is requested 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 of such person which is placed on the current roll.

If the assessee establishes to the satisfaction of the county board of equalization or the assessment appeals board that the failure to file the statement was due to reasonable cause and not due to willful neglect, it may order the penalty abated; provided, that the assessee has filed with the county board written application for abatement of the penalty within the time prescribed by law for the filing of applications for assessment reductions.

If the penalty is abated, it shall be canceled or refunded in the same manner as an amount of tax erroneously charged or collected.

§5765. Escaped racehorses; tax and penalties.

(a) The assessor may perform audits of the books and records of any owner of racehorses subject to the tax imposed by this part in the county to determine if the correct information has been reported and the proper amount of tax has been paid.

(b) In those cases wherein the board determines that an audit would have been required under Section 469 if the racehorses were subject to property taxation, rather than to the provisions of this part, the assessor shall perform such audits of the books and records of the owners of racehorses subject to the tax imposed by this part as the board by rules and regulations may prescribe.

§5766. Escaped racehorses; statute of limitations. The tax described in this part may be imposed at any time within five years after the tax would have otherwise become due and the penalties shall date from the time described in Section 5763.

§5767. Penalties. If any person required by Section 5782 to file a report fails to file it by the time specified, the tax collector shall impose on the lawful amount of taxes due under this part, a penalty equal to 10 percent of the tax, and the penalties provided by Section 5763. If any person required to file the report required by Section 5782 files any false or fraudulent report with an intent to defeat or evade any tax due under his part, the tax collector shall impose on the lawful amount of tax due under this part, a penalty equal to 25 percent of the tax, and the penalties provided by Section 5763.

§5768. Required records and retention period. Upon request of the assessor, an owner of racehorses of a type subject to the tax imposed by his part shall make available at his principal place of business, principal location or principal address in California or at any place mutually agreeable to the assessor and the owner, a true copy of business records relevant to the number and type of racehorses located in any county of the state during any taxable period and the number of days spent in each county during that period. Records referred to in this section shall be retained by the owner for a period of five years from the date any tax to which they relate becomes due.

§5781. Rules, regulations and forms. The State Board of Equalization shall make such reasonable rules and regulations and prepare such forms as are necessary to carry out the intent and purposes of this part.

§5782. Reports; time due. On forms provided through the office of the assessor, the owner of a racehorse either in person, through his representative or by mail, shall report the tax due. The reports required by this section may be filed with the tax collector of the county in which the racehorse has its domicile. The reports shall be filed on or before 5:00 p.m. on the day the tax due becomes delinquent.

§12204. Tax as in lieu of other taxes and licenses: Exceptions. The tax imposed on insurers by this chapter is in lieu of all other taxes and licenses, state, county, and municipal, upon such insurers and their property, except:

(a) Taxes upon their real estate.

(b) That an insurer transacting title insurance in this state which has a trust department or does a trust business under the banking laws of this state is subject to taxation with respect to such trust department or trust business to the same extent and in the same manner as trust companies and the trust departments of banks doing business in this state.

(c) Any retaliatory exactions imposed by paragraph (3) of subdivision (f) of Section 28 of Article XIII of the Constitution.

(d) The tax on ocean marine insurance.

(e) Motor vehicle and other vehicle registration license fees and any other tax or license fee imposed by the state upon vehicles, motor vehicles or the operation thereof.

(f) That each corporate or other attorney in fact of a reciprocal or interinsurance exchange shall be subject to all taxes imposed upon corporations or others doing business in the state, other than taxes on income derived from its principal business as attorney in fact.

§19286. Inspection by other tax official; Furnishing abstracts or information upon receipt of affidavit.

(a) The Franchise Tax Board may permit the Commissioner of Internal Revenue of the United States, or other tax officials of this state, or the Multistate Tax Commission, or the proper officer of any state imposing an income tax or a tax measured by income, or the authorized representative of any such officer, to inspect the income tax returns of any individual, estate, trust, or partnership, or may furnish to such commission, or the officer of the authorized representative thereof an abstract of the return of income of any taxpayer or supply thereof information concerning any item of income contained in any return or disclosed by the report of any investigation of the income or return of income of any taxpayer. Such information shall be furnished to the Multistate Tax Commission, such federal or state officer or his representative for tax purposes only. Except when furnished pursuant to a written agreement, information furnished pursuant to this section, shall be furnished only if the request is in the form of an affidavit under penalty of perjury stating that the purpose for the request relates to an investigation of the tax specified in the request and that the information will be used in the ordinary performance of the applicant's official duties.

(b) Notwithstanding the provisions of subdivision (a), tax officials of political subdivisions of this state shall request information from the Franchise Tax Board by affidavit only. At the time a tax official makes the request, he or she shall provide the affected taxpayer with a copy of the affidavit and, upon request, make the information obtained available to the taxpayer.

§23181. Banks; imposition on net income; method of taxing national banking associations; tax on bank ceasing business, dissolving or withdrawing; minimum tax.

(a) Except as otherwise provided herein, an annual tax is hereby imposed upon every bank located within the limits of this state according to or measured by its net income, upon the basis of its net income for the next preceding income year at the rate provided under Section 23186. With respect to the taxation of national banking associations, the state adopts the method numbered (4) authorized by the act of March 25, 1926, amending Section 5219 of the Revised Statutes of the United States, Title 12, Section 548, United States Code.

(b) If a bank commences to do business and ceases doing business in the same taxable year, the tax for such taxable year shall be according to or measured by its net income for such year, at the rate provided under Section 23186.

(c) With respect to a bank, other than a bank described in subdivision (b), which ceases doing business after December 31, 1972, the tax for the taxable year of cessation shall be:

(1) According to or measured by its net income for the next preceding income year, to be computed at the rate prescribed in Section 23186, plus

(2) According to or measured by its net income for the income year during which the bank ceased doing business, to be computed at the rate prescribed in Section 23186.

(d) In the case of a bank which ceased doing business before January 1, 1973, but dissolves or withdraws on such date or thereafter, the tax for the taxable year of dissolution or withdrawal shall be according to or measured by its net income for the income year during which the bank ceased doing business, unless such income has previously been included in the measure of tax for any taxable year, to be computed at the rate prescribed under Section 23186 for the taxable year of dissolution or withdrawal.

(e) Commencing with income years ending in 1980, every bank shall pay to the state a minimum tax of two hundred dollars (\$200) or the measured tax imposed on its income, whichever is greater.

§23182. Banks and financial corporations; tax in lieu of other taxes and licenses. The tax imposed under this part upon banks and financial corporations is in lieu of all other taxes and licenses, state, county and municipal, upon the said banks and financial corporations except taxes upon their real property, local utility user taxes, sales and use taxes, state energy resources

surcharge, state emergency telephone users surcharge, and motor vehicle and other vehicle registration license fees and any other tax or license fee imposed by the state upon vehicles, motor vehicles or the operation thereof.

The changes in this section made by the 1979-80 Legislature with respect to sales and use taxes apply to income years beginning on and after January 1, 1980, and the remaining changes apply to income years beginning on and after January 1, 1981.

§23183. Financial corporations; franchise tax on net income.

(a) An annual tax is hereby imposed upon every financial corporation doing business within the limits of this state and taxable under the provisions of Section 27 of Article XIII of the Constitution of this state, for the privilege of exercising its corporate franchises within this state, according to or measured by its net income, upon the basis of its net income for the next preceding income year at the rate provided under Section 23186.

(b) For purposes of this article, the term "financial corporation" does not include any corporation, including a wholly owned subsidiary of a bank or bank holding company, if the principal business activity of such entity consists of leasing tangible personal property.

§26453. Disclosure of return or return information in proceeding related to tax administration. A return or return information may be disclosed in a judicial or administrative proceeding pertaining to or related to tax administration, if –

(a) The taxpayer is a party to the proceeding, or the proceeding arose out of, or in connection with, determining the taxpayer's civil or criminal liability, or the collection of the taxpayer's civil liability with respect to any tax imposed under this part; or

(b) The treatment of an item reflected on the return is directly related to the resolution of an issue in the proceeding; or

(c) The return or return information directly relates to a transactional relationship between a person who is a party to the proceeding and the taxpayer which directly affects the resolution of an issue in the proceeding.

SUMMARY OF BOARD LETTERS TO COUNTY ASSESSORS AND OTHERS DEALING  
WITH THE AUDIT PROGRAM

A. Letters to County Assessors

<u>Number</u>	<u>Date</u>	<u>Highlights</u>
78/12	February 1, 1978	The Board outlined its contract audit program for fiscal years 1978-79 through 1985-86.
79/25	February 1, 1979	
80/24	February 19, 1980	
81/33	March 2, 1981	
82/36	March 1, 1982	
83/23	March 1, 1983	
84/24	March 1, 1984	
85/41	March 15, 1985	
78/139	August 10, 1978	Although the law allowed counties an extra year in which to audit 1975-76 assessments, counties were strongly advised to complete as many mandatory audits as possible during the 1978-79 fiscal year.
78/140	August 10, 1978	California statutes (Revenue and Taxation and Corporations Codes) authorize the assessor to require foreign and out-of-state domestic taxpayers to bring their records to California for audit purposes.
79/10	January 15, 1979	<ol style="list-style-type: none"> <li>1. When a mandatory audit results in an escape assessment, the original assessment of all the assessee's property at that location for the year of escape is subject to local review and appeal.</li> <li>2. If an audit discloses an overassessment of property, the assessor must notify the assessee of the refund claim procedure.</li> <li>3. Overassessments discovered for any year under audit will offset escapes discovered for any year under audit.</li> <li>4. If total refunds exceed total escapes at a location under audit, the county assessor must notify both the taxpayer and the State Controller of the excess and the refund claim procedure.</li> </ol>

<u>Number</u>	<u>Date</u>	<u>Highlights</u>
79/10 (Continued)		5. Any county assessor's errors discovered during audit may be corrected up until six months after the enrollment of the audit results or delivery of the roll to the auditor (Senate Bill 1752).
79/178	October 16, 1979	The minimum full value of business property subject to audit was increased from \$100,000 to \$200,000. The full value of trade fixtures is to be included in the value estimate.
80/29	February 26, 1980	For the 1980-81 roll, it was necessary for each county using direct billing procedures to review each account and remove any business inventory which might be included.
80/53	March 25, 1980	Banks and insurance companies whose trade fixtures total \$200,000 full value for each of the four lien dates 1975-78 and/or 1976-79, had to be audited by June 30, 1980, unless a waiver was obtained.
80/69	April 25, 1980	Questions were answered about the business inventory exemption in the categories of administration, manufacturing, retailing, professional and service enterprises, agricultural enterprises, and property held for lease.
80/70	April 29, 1980	Questions were answered about mandatory audits in light of the recent increase in the minimum full value level to \$200,000.
81/119	September 29, 1981	County assessors can use first-class mail as well as certified or registered mail to send notices concerning nonfiled property statements; provided, however, that the assessee may file such statement with no penalty within 20 days of the date shown on the certificate of mailing (Assembly Bill 1553).

<u>Number</u>	<u>Date</u>	<u>Highlights</u>
82/44	March 17, 1982	<ol style="list-style-type: none"><li>1. Taxpayers can now furnish attachments to required property statements in lieu of completing the statement in its entirety.</li><li>2. Leased property timely reported on a lessee's property statement will not be subject to failure to file penalties because of the lessor's lateness or failure to file, if the lessee contractually liable for property taxes on the leased property (Assembly Bill 1603).</li></ol>
84/38	March 30, 1984	Whenever escaped property is discovered as the result of an assessor's audit, the taxpayer is entitled to equalization on the entire property for the year(s) of escape, regardless of whether or not the assessor actually enrolls an escape assessment.
84/61	June 29, 1984	The statute of limitation, affecting escape assessments, roll corrections and claims for refunds, could be extended by mutual written consent of the county assessor and the assessee.

B. LEGAL CORRESPONDENCE

<u>Number</u>	<u>Date</u>	<u>Highlights</u>
361	July 16, 1980	An assessee may not refuse to allow the county assessor to examine his records to determine whether the assessee has correctly reported all his property in the respective county.
439	October 15, 1980	The penalty for failure to file an annual property statement may be enrolled as an escape assessment subsequent to an audit.
485	December 19, 1980	The personal property of a federally chartered credit union is taxable in California, but personal property belonging to a federal land bank is not.
599	May 19, 1981	The assessor has no power to require an out-of state assessee to submit copies of all his records to the assessor's office for audit; however, he can require the assessee to make such copies available at the assessee's principal office within California.
610	May 27, 1981	The disclosure of the confidential listing of financial corporations by the assessor to a municipal revenue officer charged with administering a business license tax is permissible under the law.
611	May 27, 1981	Any Board-certified property tax appraiser may inspect the financial records of a taxpayer, notwithstanding that the appraiser does not possess the qualifications of an auditor as prescribed by law.
614	June 3, 1981	The real property of Federal Reserve Banks is subject to local property taxation, but personal property owned by such banks is exempt under federal law.



SUMMARY OF PROPERTY TAX LEGISLATION AFFECTING THE AUDIT PROGRAM

Senate Bill 1571                      Chapter 353                      July 4, 1978

Special procedural dispensations were authorized for the local tax roll for fiscal year 1978-1979 only, affecting appeals, roll corrections and escape assessments. Also, in Los Angeles County only, the requirement for mandatory audits was suspended for that fiscal year.

Senate Bill 1752                      Chapter 732                      September 11, 1978

When a mandatory audit results in an escape assessment, the original assessment of all property at that assessee's location for the year(s) of escape shall be subject to review, equalization and adjustment at the local level.

Assembly Bill 2902                      Chapter 1209                      September 26, 1978

Failure of the part of an aircraft owner to file the property statement requested by the county assessor will result in a penalty added to the estimated assessment made of the unreported aircraft.

Assembly Bill 884                      Chapter 518                      September 7, 1979

Mandatory audits are required every four years only where both trade fixtures and business tangible personal property have a full value of \$200,000 or more.

Assembly Bill 66                      Chapter 1150                      September 29, 1979

For the 1980-81 fiscal year and thereafter, the business inventory exemption was increased to 100 percent and the in-lieu tax on baled cotton was repealed.

Assembly Bill 2479                      Chapter 411                      July 11, 1980

For the 1980-81 fiscal year and thereafter, business inventory is exempt from taxation. The monthly interest charged on penal assessments was increased from one-half to three-quarters of one percent. The head-day tax on livestock was repealed.

Assembly Bill 1553                      Chapter 361                      September 9, 1981

County assessors are authorized to use a certificate of first-class mailing in giving notice to an owner of taxable personalty that his or her signed property statement has not been received within the time prescribed by law.

Assembly Bill 1603                      Chapter 7                                      January 21, 1982

Certain reporting requirements pertaining to the business property statement were modified.

Assembly Bill 1485                      Chapter 1092                                      September 27, 1983

The fine for making willful oral or written misstatements in connection with property tax assessments, or for refusing to give the county assessor information he has requested which is relevant to making a value estimate, was increased to a maximum of \$1,000 for individuals, with additional fines of up to \$20,000 for corporations.

Assembly Bill 1200                      Chapter 1224                                      September 30, 1983

The county assessor and the taxpayer can, before the expiration of the statute of limitation, agree in writing to extend the time for making an escape assessment, correction, or claim for refund.

Assembly Bill 2433                      Chapter 678                                      August 22, 1984

The Board of Equalization's determination of value, made pursuant to the statutory requirement for periodic appraisal surveys, can be treated as a mandatory audit if the county assessor chooses to use the Board's value estimate as the basis for assessment.