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No. 2009/042

September 14, 2009

TO COUNTY ASSESSORS:

ASSESSORS' HANDBOOK SECTION 401,
CHANGE IN OWNERSHIP – SECOND DRAFT

In Letter To Assessors 2008/043, we advised that Board staff had initiated a project to develop a new section of the Assessors' Handbook relative to changes in ownership of property under the provisions of article XIII A (Proposition 13). We transmitted a draft of Assessors' Handbook Section 401, *Change in Ownership*, and requested suggested language changes from interested parties. Since we received extensive requests for revisions to the text, a second draft has been developed and is enclosed.

You may provide proposed changes to the second draft in the *form of alternative text*. Identify the page and line number for all changes. Proposed alternative text will be accepted until November 6, 2009, and should be submitted to Ms. Glenna Schultz at glenna.schultz@boe.ca.gov or sent to the above address.

After reviewing proposed alternative text, the project will proceed as follows:

- Staff will distribute an agenda matrix summarizing proposed changes to the draft.
- Staff will meet with interested parties to discuss proposed changes to the draft.
- The Board's Property Tax Committee will hear any unresolved issues.

All documents regarding proposed Assessors' Handbook Section 401 will be posted on the Board's website at www.boe.ca.gov/proptaxes/ah401_timeline.htm. If you have any questions regarding this project, you may contact Ms. Schultz at 916-324-5836 or Ms. Sherrie Kinkle at 916-322-2921.

Sincerely,

/s/ David J. Gau

David J. Gau
Deputy Director
Property and Special Taxes Department

DJG:sk
Enclosure

DRAFT

**ASSESSORS' HANDBOOK
SECTION 401**

CHANGE IN OWNERSHIP

SEPTEMBER 2009

CALIFORNIA STATE BOARD OF EQUALIZATION

BETTY T. YEE, SAN FRANCISCO
BILL LEONARD, SACRAMENTO/ONTARIO
MICHELLE STEEL, ROLLING HILLS ESTATE
STEVE SHEA, ACTING MEMBER, LOS ANGELES
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FIRST DISTRICT
SECOND DISTRICT
THIRD DISTRICT
FOURTH DISTRICT
STATE CONTROLLER

RAMON J. HIRSIG, EXECUTIVE DIRECTOR



1 **Foreword**

2 On June 6, 1978, the voters in California approved Proposition 13 which added article XIII A to
3 the California Constitution. Article XIII A generally limits the amount of ad valorem tax to a
4 maximum of 1 percent of the full cash value of the real property. For purposes of this limitation,
5 the Constitution defines *full cash value* to mean a county assessor's valuation of real property as
6 shown on the 1975-76 tax bill, or thereafter, the appraised value of that real property when
7 purchased, newly constructed, or a change in ownership has occurred. As long as the property
8 has the same owner, its assessed value generally cannot increase by more than 2 percent each
9 year—even if the property's market value is increasing at a faster rate. As a result, the market
10 value of many properties is higher than the assessed value.

11 In its original form and at the time of its passage in 1978, Proposition 13 did not provide for any
12 exclusion from a change in ownership. However, even during the implementation process of
13 Proposition 13, various exclusions were contemplated. In defining change in ownership, the
14 Legislature also provided examples of what is not change in ownership (for example,
15 interspousal transfers). In addition, subsequent amendments to article XIII A have been approved
16 by voters, which enacted other change in ownership exclusions. Examples of these include base
17 year value transfers for persons over the age of 55 and the exclusion of parent-child transfers.

18 The California Legislature codified the definition of change in ownership and any implemented
19 amendments to article XIII A dealing with change in ownership, by enacting Revenue and
20 Taxation Code sections 60 through 69.5. This section of the *Assessors' Handbook* is a
21 compilation of the information included in the Revenue and Taxation Code statutes, Property
22 Tax Rules, and court cases as they relate to change in ownership.

23 Topics covered in this handbook section include changes in ownership as they pertain to
24 tenancies in common, joint tenancies, trusts and estates, legal entities, leases, cooperative
25 housing, interspousal transfers, domestic partners, and others. This handbook also discusses the
26 more common change in ownership exclusions and the various base year value transfers.

27 Section 15606, subdivision (c), of the Government Code directs the State Board of Equalization
28 (Board) to prescribe rules and regulations governing county assessors in the performance of their
29 duties, and subdivision (f) provides that the Board shall issue instructions, such as those set forth
30 in this handbook section. While rules and regulations adopted by the Board are binding as law,
31 Board-adopted handbook sections are advisory only. Nevertheless, courts have held that they
32 may be properly considered as evidence in the adjudicatory process.¹

33 The citations and law references in this publication were current as of the writing of the
34 handbook section. Board staff met with members of the California Assessors' Association,

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

1 County Counsels' Association of California, and industry representatives to solicit input for this
2 handbook section. The Board approved this handbook section on_____

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David J. Gau
Deputy Director
Property and Special Taxes Department
California State Board of Equalization
Date

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Table of Contents

| | |
|---|-----------|
| CHAPTER 1: OVERVIEW | 1 |
| ASSESSMENT PRE- AND POST-PROPOSITION 13 | 1 |
| CHANGE IN OWNERSHIP | 3 |
| TRANSFERS THAT DO NOT CONSTITUTE A CHANGE IN OWNERSHIP | 4 |
| <i>Base Year Value Transfers</i> | 5 |
| DATE OF CHANGE IN OWNERSHIP | 5 |
| <i>Sales</i> | 5 |
| Sales Contract | 5 |
| Option to Purchase | 6 |
| <i>Inheritance</i> | 6 |
| <i>Trusts</i> | 6 |
| <i>Life Estate</i> | 7 |
| <i>Leases</i> | 7 |
| REBUTTABLE PRESUMPTION REGARDING OWNERSHIP INTERESTS | 7 |
| VOID AND VOIDABLE TRANSFERS | 9 |
| RESCINDED TRANSFERS | 9 |
| REPORTING CHANGES IN OWNERSHIP | 9 |
| <i>Change in Ownership Statement</i> | 9 |
| <i>Preliminary Change of Ownership Report</i> | 10 |
| <i>Reporting Changes in Control of Legal Entities</i> | 10 |
| CONSEQUENCES OF CHANGE IN OWNERSHIP | 11 |
| CHAPTER 2: FORMS OF INDIVIDUAL PROPERTY OWNERSHIP | 12 |
| OVERVIEW OF FORMS OF PROPERTY OWNERSHIP | 12 |
| TENANCY IN COMMON | 12 |
| JOINT TENANCY | 13 |
| <i>Transfers of Joint Tenancy Interest</i> | 13 |
| <i>Joint Tenancy Original Transferor Exclusion</i> | 14 |
| Spouse of Original Transferor | 15 |
| Transfer from Tenancy in Common | 16 |
| Revocable Trusts and Joint Tenancies | 17 |
| <i>Presumption of Original Transferor Status</i> | 18 |
| <i>Correcting Deed to Joint Tenancy</i> | 18 |
| <i>Termination of Joint Tenancy and of Original Transferor Status</i> | 19 |
| <i>Severing a Joint Tenancy</i> | 20 |
| CHAPTER 3: TRUSTS | 21 |
| DEFINITIONS | 21 |
| <i>Trust Terms</i> | 21 |
| <i>Types of Trusts</i> | 21 |
| CHANGE IN OWNERSHIP | 23 |
| <i>Revocable Trusts</i> | 23 |
| <i>Irrevocable Trusts</i> | 23 |
| Multiple Beneficiaries and Sprinkle Provisions | 24 |
| Filing of a Subdivision Map for Property Held in a Trust | 25 |

| | |
|---|-----------|
| CHAPTER 4: LIFE ESTATES AND ESTATES FOR YEARS..... | 26 |
| LIFE ESTATES | 26 |
| <i>Transfer by Life Tenant</i> | 27 |
| ESTATES FOR YEARS..... | 27 |
| CHAPTER 5: LEASES | 29 |
| TERM OF LEASE | 30 |
| <i>Homeowners' Exemption Presumption</i> | 30 |
| <i>Amendment or Extension of Lease Term</i> | 31 |
| TERMINATION OF LEASES | 31 |
| <i>Merger of Leasehold and Leased Fee Interests</i> | 32 |
| REAPPRAISAL OF LEASED PROPERTY | 32 |
| SUBLEASES | 32 |
| EXEMPT GOVERNMENT-OWNED PROPERTY..... | 33 |
| MINERAL PROPERTIES | 33 |
| CHAPTER 6: LEGAL ENTITIES..... | 35 |
| OVERVIEW | 35 |
| OWNERSHIP OF LEGAL ENTITIES..... | 35 |
| <i>Corporations</i> | 35 |
| Nonprofit Corporations..... | 35 |
| <i>Partnerships</i> | 36 |
| <i>Limited Liability Companies</i> | 37 |
| <i>Joint Venture</i> | 37 |
| <i>Massachusetts Business Trusts</i> | 38 |
| <i>Real Estate Investment Trusts</i> | 38 |
| CHANGE IN OWNERSHIP..... | 38 |
| <i>Real Property Transfers</i> | 38 |
| <i>Transfer of Interest in an Entity</i> | 39 |
| Change in Control..... | 39 |
| Original Co-owner Interest Transfers | 40 |
| <i>Mergers of Legal Entities</i> | 42 |
| <i>Acquisition by Majority Partner</i> | 43 |
| <i>Legal Entity Interests Held by Trust</i> | 43 |
| Irrevocable Trusts | 44 |
| Revocable Trusts..... | 44 |
| CHANGE IN OWNERSHIP EXCLUSIONS INVOLVING LEGAL ENTITIES | 45 |
| <i>Proportional Ownership Interest Transfer Exclusion</i> | 45 |
| <i>Interspousal and Registered Domestic Partner Exclusions</i> | 46 |
| <i>Affiliated Group Exclusions</i> | 48 |
| <i>Parent-Child and Grandparent-Grandchild Exclusion</i> | 48 |
| COOPERATIVE HOUSING CORPORATIONS..... | 48 |
| CHAPTER 7: STEP TRANSACTION DOCTRINE | 50 |
| APPLICATION TO PARENT-CHILD AND GRANDPARENT-GRANDCHILD EXCLUSIONS | 52 |
| CHAPTER 8: COMMON INTEREST DEVELOPMENTS | 53 |

| | |
|--|-----------|
| REAPPRAISAL OF INTERESTS | 53 |
| COOPERATIVE HOUSING CORPORATIONS..... | 54 |
| CONDOMINIUM CONVERSIONS..... | 54 |
| TIME-SHARES | 55 |
| <i>Time-Share Estate</i> | 56 |
| <i>Time-Share Use</i> | 56 |
| CHAPTER 9: MANUFACTURED HOMES AND MOBILEHOME PARKS..... | 57 |
| CHANGE IN OWNERSHIP OF MANUFACTURED HOMES..... | 57 |
| CHANGE IN OWNERSHIP OF MOBILEHOME PARKS | 57 |
| <i>Transfers to Resident-Owned Entities</i> | 58 |
| <i>Transfers of Rental Spaces to the Residents</i> | 58 |
| <i>Transfers to Non-Resident-Owned Entities</i> | 59 |
| <i>Change in Ownership of Spaces</i> | 60 |
| <i>Pro Rata Portion</i> | 60 |
| <i>Transfers of Manufactured Home Park Spaces in Entities Formed Prior to 1985</i> | 61 |
| CHAPTER 10: MISCELLANEOUS ISSUES..... | 63 |
| EMPLOYEE BENEFIT PLANS | 63 |
| <i>Individual Retirement Accounts</i> | 64 |
| FORECLOSURE..... | 64 |
| AIR RIGHTS..... | 65 |
| ADVERSE POSSESSION | 66 |
| TAXABLE POSSESSORY INTERESTS | 67 |
| <i>Change in Ownership of Taxable Possessory Interests</i> | 67 |
| <i>Subleases of Taxable Possessory Interests</i> | 68 |
| CHAPTER 11: INTERSPOUSAL AND REGISTERED DOMESTIC PARTNER EXCLUSIONS..... | 70 |
| ELIGIBLE RELATIONSHIPS | 70 |
| <i>Marriages</i> | 70 |
| <i>Registered Domestic Partnerships</i> | 70 |
| COMMUNITY AND SEPARATE PROPERTY | 71 |
| <i>Community Property</i> | 72 |
| <i>Separate Property</i> | 72 |
| <i>No Attribution Between Members of the Community</i> | 73 |
| INTERSPOUSAL EXCLUSION..... | 73 |
| REGISTERED DOMESTIC PARTNER EXCLUSION | 74 |
| TRANSFERS UPON DEATH | 75 |
| TRANSFERS INVOLVING LEGAL ENTITIES | 75 |
| <i>Transfer of Interests in a Legal Entity</i> | 75 |
| <i>Transfer of Real Property</i> | 76 |
| PROPERTY SETTLEMENT AND POST-SETTLEMENT AGREEMENT TRANSFERS | 77 |
| CHAPTER 12: PARENT-CHILD AND GRANDPARENT-GRANDCHILD EXCLUSIONS | 79 |
| OVERVIEW | 79 |

| | |
|--|------------|
| ELIGIBLE TRANSFERORS AND TRANSFEREES | 79 |
| <i>Children</i> | 79 |
| Registered Domestic Partnerships | 80 |
| <i>Grandchild</i> | 81 |
| ELIGIBLE PURCHASES AND TRANSFERS | 81 |
| <i>Purchase or Transfer</i> | 82 |
| <i>Acquisition by Inheritance</i> | 82 |
| <i>Trusts</i> | 82 |
| <i>Estate Distributions – Pro Rata and Non-Pro Rata</i> | 83 |
| Beneficiary-to-Beneficiary Transfer | 84 |
| Equalizing Trust Distributions | 84 |
| Will Distributions | 85 |
| <i>Transfers Into and Out of Legal Entities</i> | 86 |
| Step Transaction Doctrine | 86 |
| DATE OF CHANGE IN OWNERSHIP | 87 |
| <i>Application of Larson v. Duca</i> | 88 |
| PRINCIPAL RESIDENCE | 88 |
| <i>Parent-Child Exclusion</i> | 88 |
| <i>Grandparent-Grandchild Exclusion</i> | 89 |
| <i>Reasonable Size Requirement</i> | 90 |
| \$1 MILLION LIMIT | 90 |
| <i>Joint Tenancies and the \$1 Million Exclusion</i> | 91 |
| <i>Multiple Properties</i> | 91 |
| <i>Allocation of the \$1 Million Exclusion</i> | 92 |
| FILING REQUIREMENTS | 92 |
| <i>Retroactive Relief</i> | 93 |
| <i>Prospective Relief</i> | 94 |
| CHAPTER 13: PARTITION AND DE MINIMIS EXCLUSIONS | 95 |
| PARTITION | 95 |
| <i>Section 62(a)(1) Exclusion</i> | 95 |
| <i>Appraisal Unit</i> | 95 |
| <i>Partitions—Valuation</i> | 96 |
| <i>Partitions—Conversion to Condominiums</i> | 97 |
| 5 PERCENT/\$10,000 (DE MINIMIS) EXCLUSION | 98 |
| CHAPTER 14: BASE YEAR VALUE TRANSFER – OVER 55 OR SEVERELY AND PERMANENTLY DISABLED PERSONS | 100 |
| OVERVIEW | 100 |
| ELIGIBLE CLAIMANT | 101 |
| <i>Age/Disability</i> | 101 |
| <i>One-Time Benefit</i> | 102 |
| <i>Registered Domestic Partners</i> | 103 |
| TIMING | 103 |
| ELIGIBLE PROPERTY | 103 |
| <i>Restricted Property</i> | 105 |
| <i>Sale and Purchase Requirements</i> | 105 |

| | |
|---|------------|
| PRINCIPAL RESIDENCE REQUIREMENTS | 107 |
| EQUAL OR LESSER VALUE REQUIREMENT | 107 |
| <i>Full Cash Value of Original Property</i> | 108 |
| <i>Full Cash Value of Replacement Dwelling</i> | 108 |
| <i>Value Comparison</i> | 108 |
| MISCELLANEOUS ISSUES..... | 109 |
| <i>Manufactured Home</i> | 109 |
| <i>Multi-Unit Dwelling</i> | 111 |
| <i>Multiple Owners of Original Property and/or Replacement Dwelling</i> | 112 |
| <i>Fractional Interests in Property</i> | 113 |
| <i>Additional New Construction</i> | 114 |
| <i>Damaged or Destroyed Original Property</i> | 114 |
| FILING REQUIREMENTS..... | 115 |
| <i>Filing Period</i> | 116 |
| <i>Prospective Relief</i> | 117 |
| <i>Denial of a Claim and Purchase of Another Replacement Dwelling</i> | 118 |
| <i>Claim is Confidential</i> | 118 |
| <i>Rescinding a Claim</i> | 119 |
| CHAPTER 15: GOVERNMENT ACQUISITION OF PROPERTY | 121 |
| ELIGIBLE PROPERTY | 121 |
| COMPARABILITY | 121 |
| BASE YEAR VALUE OF REPLACEMENT PROPERTY | 123 |
| OWNERSHIP REQUIREMENTS..... | 124 |
| NEW CONSTRUCTION..... | 124 |
| TIMING AND FILING REQUIREMENTS | 124 |
| CHAPTER 16: DAMAGED OR DESTROYED BY DISASTER | 127 |
| INTRACOUNTY TRANSFER..... | 127 |
| <i>Comparable Replacement Property</i> | 128 |
| <i>Base Year Value of Replacement Property</i> | 128 |
| <i>Base Year Value of Original Property</i> | 129 |
| <i>Ownership Requirement</i> | 129 |
| <i>Filing Requirements</i> | 129 |
| INTERCOUNTY BASE YEAR VALUE TRANSFER..... | 130 |
| <i>Original and Replacement Properties</i> | 130 |
| <i>Ownership</i> | 131 |
| <i>Timing</i> | 131 |
| <i>Equal or Lesser Value</i> | 131 |
| <i>Base Year Value of Original Property</i> | 131 |
| <i>Filing Requirements</i> | 132 |
| CHAPTER 17: ENVIRONMENTAL CONTAMINATION | 133 |
| QUALIFIED CONTAMINATED PROPERTY | 133 |
| <i>Condition of Property</i> | 133 |
| <i>Ownership</i> | 133 |

| | |
|---|------------|
| BASE YEAR VALUE TRANSFER | 134 |
| <i>Timing</i> | 134 |
| <i>Location</i> | 135 |
| <i>Comparability</i> | 135 |
| <i>Equal or Lesser Value</i> | 135 |
| <i>Filing Period</i> | 136 |
| APPENDIX 1: PROPERTY TAX RULES..... | 137 |
| RULE 462.001. CHANGE IN OWNERSHIP – GENERAL | 137 |
| RULE 462.020. CHANGE IN OWNERSHIP – TENANCIES IN COMMON..... | 137 |
| RULE 462.040. CHANGE IN OWNERSHIP – JOINT TENANCIES..... | 138 |
| RULE 462.060. CHANGE IN OWNERSHIP – LIFE ESTATE AND ESTATES FOR YEARS | 141 |
| RULE 462.080. CHANGE IN OWNERSHIP – POSSESSORY INTERESTS..... | 141 |
| RULE 462.100. CHANGE IN OWNERSHIP – LEASES..... | 142 |
| RULE 462.120. CHANGE IN OWNERSHIP – FORECLOSURE..... | 143 |
| RULE 462.140. CHANGE IN OWNERSHIP – TRANSFERS RESULTING FROM TAX DELINQUENCY | 143 |
| RULE 462.160. CHANGE IN OWNERSHIP – TRUSTS | 143 |
| RULE 462.180. CHANGE IN OWNERSHIP – LEGAL ENTITIES..... | 146 |
| RULE 462.200. CHANGE IN OWNERSHIP – MISCELLANEOUS ARRANGEMENTS | 150 |
| RULE 462.220. CHANGE IN OWNERSHIP – INTERSPOUSAL TRANSFERS | 151 |
| RULE 462.240. THE FOLLOWING TRANSFERS DO NOT CONSTITUTE A CHANGE IN OWNERSHIP | |
| | 151 |
| RULE 462.260. DATE OF CHANGE IN OWNERSHIP..... | 153 |
| RULE 462.500. CHANGE IN OWNERSHIP OF REAL PROPERTY ACQUIRED TO REPLACE PROPERTY | |
| TAKEN BY GOVERNMENTAL ACTION OR EMINENT DOMAIN PROCEEDINGS..... | 154 |
| APPENDIX 2: GLOSSARY OF TERMS..... | 159 |

CHAPTER 1: OVERVIEW

ASSESSMENT PRE- AND POST-PROPOSITION 13

In June 1978, when California voters approved Proposition 13 (article XIII A was added to the California Constitution), California property taxation was changed by:

1. Limiting the property tax rate applied to assessed values to 1 percent plus additional rates necessary to retire voter-approved bonded indebtedness;
2. Placing explicit limitations on the power of government to impose additional property taxes; and
3. Limiting increases in assessed values by significantly changing the method of property assessment.

Prior to Proposition 13, annual assessments for both real property and personal property were based on current fair market value. As a practical matter, fiscal and staffing constraints prevented county assessors from physically revaluing each property in their respective counties every year. Consequently, reappraisals were usually conducted on a cyclical basis. Typically, these cycles ranged in duration from three to five years. Between physical reappraisals, county assessors would often apply interim value increases based on trending factors. This system of assessment ensured that all property, subject to the limitations of cyclical appraisal programs, was assessed at its current fair market value.

Proposition 13 changed the method of property taxation from a current market value system to an acquisition value system. Under Proposition 13, property assessments were rolled back to the 1975-76 levels and provided that locally-assessed property would thereafter be reassessed to fair market value only upon a change in ownership or completion of new construction. *Acquisition value assessment* refers to the process of assessing property at its fair market value at the time of a change in ownership or completion of new construction. The new assessment at such time becomes the property's new base year value, which is subject to the annual inflation adjustment discussed below.

Locally-assessed real property is the only category of property subject to the provisions of article XIII A of the California Constitution. Locally-assessed personal property and state-assessed properties are not subject to its provisions and are annually assessed as of the January 1 lien date at current fair market value by county assessors and the State Board of Equalization, respectively.

Specifically, under Proposition 13:

- Property assessments were rolled back to their 1975-76 levels for the 1978-79 fiscal year. Properties that have not been sold or newly constructed, in whole or in part, since March 1, 1975 are said to have a 1975 base year value. The *base year value* is the current

1 fair market value (or full cash value) of real property in 1975-76, or in any subsequent
2 year in which a change in ownership or the completion of new construction occurs.²

- 3 • Each property's base year value is adjusted annually to reflect inflation as measured by
4 the California Consumer Price Index, but may not exceed an increase of 2 percent. This
5 taxable value reflecting the annual inflation indexing is known as the *adjusted* or *factored*
6 *base year value*.³ The adjusted base year value is the maximum assessable amount for a
7 property for that particular year unless a change in ownership or completion of new
8 construction occurs.
- 9 • When a change in ownership occurs, a new base year value is established at the current
10 fair market value on the date of the change in ownership.⁴ The base year value of any
11 newly completed construction is its current fair market value as of its date of completion.
12 New construction in progress is appraised at its fair market value on the January 1 lien
13 date.⁵
- 14 • If a partial change in ownership occurs, only the portion that changes ownership is given
15 a new base year value based upon its current fair market value on the date of the change
16 in ownership, and the portion that did not change ownership retains its existing adjusted
17 base year value. Similarly, with new construction (for example, the addition of a
18 bedroom), the new construction is given a new base year value upon the completion of
19 the construction at its current fair market value, while the pre-existing portion(s) of the
20 property retains its existing adjusted base year value. Thus, an assessment for one parcel
21 may have multiple base year values reflecting its separate portions.

22 Property assessments may be reviewed each year for a decline in value and if a property's fair
23 market value drops below its adjusted base year value, it will be temporarily reassessed at the
24 lower fair market value.⁶ This reduction is frequently referred to by the number of its ballot
25 initiative approved by the voters—a *Proposition 8* adjustment.⁷ Even though a property may be
26 temporarily assessed at its current market value, its base year value is still increasing by the
27 annually inflation adjustment. When the property's current fair market value returns to or exceeds
28 its adjusted base year value, the adjusted base year value is restored to the assessment roll.⁸

29 Since Proposition 13 did not define change in ownership, the Assembly Revenue and Taxation
30 Committee formed a task force to study the issue and make recommendations for law changes.
31 This task force consisted of 35 members that included legislative and Board of Equalization
32 staff, county assessors, trade associations, and lawyers in the public and private sectors. The
33 effort of this task force resulted in a report to the Assembly Revenue and Taxation Committee on

² Revenue and Taxation Code sections 50 through 51.5; section 75.10(a); section 110.1. All statutory references are to the Revenue and Taxation Code unless otherwise indicated.

³ Section 51.

⁴ Section 50; section 75.10(a); section 110.1(a) and (b).

⁵ Sections 70 and 71.

⁶ Section 51(a)(2) and (e).

⁷ Approved by the voters on November 7, 1978.

⁸ *County of Orange v. Bezaire* (2004) 117 Cal.App.4th 121.

1 January 22, 1979. The recommendations in the task report resulted in the enactment of various
 2 Revenue and Taxation Code sections. The provisions regarding change in ownership are codified
 3 beginning with section 60. Subsequent constitutional amendments to article XIII A and
 4 corresponding implementing statutes have resulted in additional exclusions from the definition of
 5 change in ownership.

6 CHANGE IN OWNERSHIP

7 Locally assessed real property subject to Proposition 13 is reassessed upon a change in
 8 ownership or new construction. Section 60 defines a *change in ownership* as a transfer of a
 9 present interest in real property, including the beneficial use thereof, the value of which is
 10 substantially equal to the value of the fee interest. For those transfers that are not specifically
 11 addressed by statutes, regulations, or court decisions, section 60 provides the fundamental
 12 criteria for determining whether a change in ownership has occurred.⁹

- 13 • A *transfer* may be voluntary or involuntary and may happen by operation of law or may
 14 result from: a purchase or sale; a grant, gift or devise through inheritance or through a
 15 trust; an addition or deletion of an owner; or a property settlement.¹⁰ Payment or
 16 consideration is not required. Consideration is something of value (for example, the
 17 exchange of other property, the assumption of a debt, the cancellation of an outstanding
 18 debt, the creation of a debt) that may be exchanged for the property.
- 19 • A *present interest* is one which entitles the person having such interest to the immediate
 20 possession, present use, or present enjoyment of the property. This requirement excludes
 21 from the definition of change in ownership the transfer of contingent and future interests,
 22 including revocable transfers. (See Chapter 3 for a discussion of revocable trusts.)
- 23 • The term *beneficial use* means the right to enjoy the benefits of a property and includes
 24 the right to occupy a property and the right to receive income produced by a property.¹¹
 25 This requirement excludes from the definition of change in ownership transfers involving
 26 trustees, conservators, fiduciaries, security interest holders such as lenders, and other title
 27 changes where there are no transfers of the beneficial use.¹²
- 28 • A change in ownership requires that the transferred property interest be substantially
 29 equal to the value of the fee interest in the property.¹³ Fee simple ownership means
 30 absolute ownership of property. Thus, *substantially equal to the value of a fee interest*
 31 means an ownership interest that is substantially equal to the value of absolute ownership.
 32 This is known as the value equivalency test and it ensures that there is only one primary
 33 owner for property tax purposes at any point in time. A major purpose of this third

⁹ *Shuwa Investments Corporation v. Los Angeles County* (1991) 1 Cal.App.4th 1635, 1647.

¹⁰ Property Tax Rule 462.001. All references to Rules or Property Tax Rules are to Title 18, Public Revenues, California Code of Regulations.

¹¹ *Reilly v. City and County of San Francisco* (2006) 142 Cal.App.4th 480; *Leckie v. County of Orange* (1998) 65 Cal.App.4th 334, 338-339; *Pacific Southwest Realty Co. v. County of Los Angeles* (1991) 1 Cal.4th 155, 162.

¹² Rules 462.001, 462.200, and 462.240.

¹³ *Pacific Southwest Realty Company v. County of Los Angeles* (1991) 1 Cal.4th 155, 164.

1 element is to avoid unwarranted complexity so that only a transfer by the primary owner
 2 will be a change in ownership.¹⁴ Under this test, the primary owner may be someone
 3 other than the record owner of the property and may not be the person legally responsible
 4 for payment of property taxes.

5 TRANSFERS THAT DO NOT CONSTITUTE A CHANGE IN OWNERSHIP

6 Some transfers of title to real property reflect transfers that do not meet one or more of the
 7 requirements of section 60, and are therefore not considered changes in ownership. Many of
 8 these transfers are discussed in the other chapters of this handbook. Rules 462.200 and 462.240
 9 interpret the statutory provisions of sections 60 through 69.5 to explain that certain transfers,
 10 although they involve recorded deeds or other apparent transfers of real property, do not
 11 represent changes in ownership that result in reappraisal of the interests transferred. Examples
 12 include:

- 13 • Transfer of only bare legal title, without the accompanying beneficial interest,¹⁵ including
 14 substitution of a trustee.¹⁶
- 15 • Transfer for the purpose of perfecting title¹⁷ or to reform or correct a deed to reflect the
 16 intentions of the parties.¹⁸
- 17 • Creation, assignment, or reconveyance of a security interest not coupled with the right to
 18 immediate use, occupancy, possession, or profits,¹⁹ such as lender on title as security for
 19 a loan.²⁰
- 20 • Transfer to or from a person or entity that acts only on behalf of and at the direction of
 21 the principal conveying the title, thereby creating a *holding agreement*. However, there is
 22 a change in ownership if there is a change in principals or the title is conveyed to another
 23 principal.²¹
- 24 • Sale and leaseback when the transaction is demonstrated to be a financing mechanism
 25 rather than a change in beneficial interest.²²
- 26 • Transaction involving shares of mutual funds.²³

27 Other transfers are specifically excluded from change in ownership by constitutional or statutory
 28 provisions. The effect of a change in ownership exclusion is that the property is not reassessed to

¹⁴ *Report of the Task Force on Property Tax Administration*, January 22, 1979, California Assembly Revenue and Taxation Committee; *Leckie v. County of Orange* (1998) 65 Cal.App.4th 334, 338.

¹⁵ Rule 462.240(a).

¹⁶ Section 62(c)(1); Rule 462.240(b).

¹⁷ Section 62(b); Rule 462.240(a)(1).

¹⁸ Section 62(l); Rule 462.240(f).

¹⁹ Section 62(c)(2); Rule 462.240(a)(2).

²⁰ Rule 462.200(a).

²¹ Rule 462.200(c).

²² Rule 462.200(d).

²³ Section 62(h); Rule 462.240(c).

1 current market value when its ownership changes. Specific change in ownership exclusions that
2 are discussed in detail in this handbook include:

- 3 • The interspousal exclusion.
- 4 • The registered domestic partner exclusion.
- 5 • The parent-child and grandparent-grandchild exclusion.

6 **BASE YEAR VALUE TRANSFERS**

7 Another type of change in ownership exclusion is a base year value transfer. This means, under
8 certain circumstances, an eligible claimant may transfer the base year value from one property to
9 another. The effect of an eligible base year value transfer is that the replacement property is
10 assessed at the adjusted base year value of the claimant's original property rather than
11 establishing a new base year value based on the current fair market value as required under
12 section 110.1.

13 This handbook discusses the following base year value transfers:

- 14 • Principal residence of property owners over the age of 55 or severely and permanently
15 disabled (see Chapter 14).
- 16 • Property taken by governmental action such as eminent domain (see Chapter 15).
- 17 • Property substantially damaged or destroyed by a Governor-proclaimed disaster (see
18 Chapter 16).
- 19 • Property environmentally contaminated (see Chapter 17).

20 **DATE OF CHANGE IN OWNERSHIP**

21 **SALES**

22 The date of change in ownership for property that is sold is rebuttably presumed to be the
23 recording date if a deed or other document evidencing the transfer is recorded.²⁴ If a deed is
24 unrecorded, the change in ownership date is rebuttably presumed to be the date on the transfer
25 document.²⁵ These presumptions may be overcome by proving that (a) all the parties' escrow
26 instructions were met on another date, or (b) the parties' agreement was specifically enforceable
27 on another date.²⁶

28 **Sales Contract**

29 A sales contract creates a mutual obligation. One party is obligated to sell and the other to buy
30 within a limited time. A sales contract transfers the use and control of a property to the buyer, or
31 vendee, while the seller, or vendor, retains title as security for payment. When the contract is

²⁴ Rule 462.260(a)(1).

²⁵ Rule 462.260(a)(2).

²⁶ Rule 462.260(a)(1) and (a)(2).

1 entered into, the buyer becomes the beneficial owner of the property and a change of ownership
 2 results. If the buyer defaults, and the property reverts back to the seller, another change in
 3 ownership occurs.

4 **Option to Purchase**

5 An option to purchase, on the other hand, obligates only the selling party. An option does not
 6 result in a change in ownership until the buyer exercises the option. Generally, the date of change
 7 in ownership is the date the option is exercised.

8 However, even though a potential purchaser (optionee) has no legal obligation to purchase the
 9 property, there are circumstances where the optionee is economically compelled to complete the
 10 transaction. This occurs whenever the optionee would realize a significant and immediate equity
 11 in the property merely by exercising the option. When significant equity is present at the time the
 12 option is originated or it can be determined at the time of origination that equity will be
 13 established with certainty within a short period, the option is a form of sales agreement and a
 14 change in ownership occurs as of the date the option was created.

15 **INHERITANCE**

16 The date of change in ownership for transfers that occur as a result of inheritance by will or
 17 intestate succession is the date of death of the decedent, even if the actual transfer deed is
 18 recorded later.²⁷

19 ***Example 1-1***

20 X held his principal residence in his own name. Pursuant to the terms of X's will, his
 21 residence was to go to a charity upon his death. X died on January 15. X's will was probated
 22 and the residence was ultimately transferred to the charity on August 30.

23 The date of the change in ownership was the date of X's death on January 15.

24 The only exception to this general rule is the unique situation of a parent-child transfer when the
 25 decedent died before November 5, 1986, and the probate court decree of distribution was issued
 26 on or after November 5, 1986. In this particular case, the date of transfer is considered to be the
 27 date of the court decree of distribution, thus allowing for the parent-child exclusion even though
 28 the decedent died prior to the effective date of the exclusion.²⁸

29 **TRUSTS**

30 For transfers made through a trust, the date of change in ownership is the date property is
 31 transferred into an irrevocable trust.²⁹ If the property is held in a revocable trust, the date of the
 32 change in ownership is the date the trust becomes irrevocable (for example, upon the death of the
 33 trustor).

²⁷ Rule 462.260(c).

²⁸ *Larson v. Duca* (1989) 213 Cal.App.3d 324, 334. For a more complete discussion of *Larson v. Duca*, see Chapter 12.

²⁹ Rule 462.260(d).

1 **Example 1-2**

2 X transferred a property into an inter vivos irrevocable trust. His nephew, B, was the sole
 3 present beneficiary of the trust. Upon X's death, the trustee recorded a deed transferring the
 4 property from the trust to B.

5 The property underwent a change in ownership on the date it was transferred into the
 6 irrevocable trust. There was no change in ownership when the trustee transferred the property
 7 from the trust to B.

8 **Example 1-3**

9 X creates an inter vivos revocable trust that becomes irrevocable upon X's death. The date of
 10 change in ownership of any real property held in the trust is the date of X's death.³⁰

11 **LIFE ESTATE**

12 The date of a change in ownership upon the termination of a life estate is the date the right of
 13 present possession or enjoyment of the property vests in the remainderman.³¹

14 **Example 1-4**

15 X transfers real property to an irrevocable trust, which grants to X's wife, B, a life estate in
 16 the property, with a remainder to C and D, who are unrelated to X and B. The creation of a
 17 life estate in B is a transfer excluded from change in ownership under the interspousal
 18 exclusion. Upon the termination of B's life estate upon her death, a change in ownership
 19 occurs because on that date C and D have an immediate right to the present possession and
 20 enjoyment of the property.³²

21 **LEASES**

22 The date of a change in ownership in the case of a lease is the date that the lessee has the right to
 23 possession as evidenced by an executed lease.³³

24 **REBUTTABLE PRESUMPTION REGARDING OWNERSHIP INTERESTS**

25 When more than one person's name appears on a deed, there is a rebuttable presumption that all
 26 persons listed on the deed have an ownership interest in the property conveyed by that deed.³⁴
 27 The presumption may be rebutted by clear and convincing evidence to the contrary. *Clear and*
 28 *convincing evidence* is proof that is explicit and unequivocal, so clear as to leave no doubt, and
 29 sufficiently strong to command the unhesitating assent of every reasonable mind.³⁵ To establish

³⁰ Rule 462.260(d)(1), Example 1.

³¹ Rule 462.260(d)(2)(B).

³² Rule 462.260(d)(1), Example 4.

³³ Rule 462.260(b).

³⁴ Rule 462.200(b).

³⁵ *Tannehill v. Finch* (1986) 188 Cal.App.3d 224, 228; *Lillian F. v. Superior Court* (1984) 160 Cal.App.3d 314, 320; *Sheehan v. Sullivan* (1899) 126 Cal. 189, 193.

1 that the property is actually owned differently from that shown on the deed, a county assessor
2 may give consideration to, but is not limited by, the following:³⁶

- 3 • A written document executed prior to or at the time of the conveyance in which all parties
4 agree that one or more of the parties do not have equitable ownership interests.
- 5 • Evidence of the monetary contribution of each party.

6 The best evidence of any fact is a final judicial finding, order, or judgment.³⁷ Proof may also be
7 made by a declaration under penalty of perjury, accompanied by written evidence such as written
8 agreements, canceled checks, insurance policies, and tax returns which substantiate the declared
9 facts.

10 ***Example 1-5***

11 X and Y wanted to purchase an investment property together. Since X had poor credit, Y
12 purchased the property solely in his own name. Later, upon refinancing the property, Y
13 conveyed a 50 percent tenancy in common interest to X. In response, the county assessor
14 issued a supplemental assessment for 50 percent of the fair market value of the property at
15 the time X was placed on title as a cotenant.

16 X and Y provided the county assessor with declarations made under penalty of perjury,
17 supported by canceled checks showing that X paid one-half of the mortgage, insurance, and
18 property taxes on the property during the time that only Y was on title. In addition, tax
19 returns indicated that X had taken the benefit of deductions for 50 percent of the deductible
20 interest and property taxes paid. This documentation constitutes clear and convincing
21 evidence sufficient to rebut the deed presumption and to conclude that X had a 50 percent
22 beneficial ownership interest in the property since the date of purchase. Thus, no change in
23 ownership occurred when X was added to title.

24 Any transfer resulting from correcting a deed which (a) inaccurately described the property
25 intended to be transferred, (b) adds or omits some terms not agreed to, or (c) otherwise fails to
26 express the parties' true intent, does not result in a change in ownership.³⁸

27 ***Example 1-6***

28 X agrees to sell one acre to Y. The deed mistakenly describes a two-acre area.

29 Correction of the deed to describe the original acre intended to be transferred is not a change
30 in ownership.³⁹ However, a deed which is recorded simply to undo a prior deed which
31 triggered a reassessment which was not the true intent of the parties, may be treated as a
32 rescinded transfer (see below).

³⁶ Rule 462.200(b)(1) and (b)(2).

³⁷ Rule 462.200(b)(2).

³⁸ Rule 462.240(f).

³⁹ Rule 462.240, Example 1.

VOID AND VOIDABLE TRANSFERS

Upon a change in ownership, real property is reassessed unless an exclusion from change in ownership applies. If a transfer is *void*, there is no change in ownership because the transfer has no force and effect from its inception. Thus, the taxpayer is entitled to a refund of taxes paid if a timely and valid refund claim is filed. Examples of void transfers include a forged deed or one signed by a minor.

Conversely, a voidable agreement is binding unless rescinded. Thus, a transfer of property which is voidable results in a change of ownership and a new base year value. If the transfer is rescinded or voided, no refund of taxes would be due.

RESCINDED TRANSFERS

A transfer may be *rescinded* by the parties, subject to the discretion of the county assessor. That is, the parties to the transfer agree to undo the transaction and are placed in the same position in which they stood before the transfer took place. However, the original transfer remains valid until the rescission occurs.

When rescission of a transfer is accepted as valid by a county assessor, the legal effect is that it *relates back* to the creation of the deed—it is as though the transfer had never been made. The property is returned to the transferor and the transferor's original adjusted base year value is restored effective on the date of the rescission. Restoration of a base year value as a result of rescission is not subject to supplemental assessment; the base year value is restored as of the following lien date.

Accordingly, any increase in the assessment prior to the rescission remains in effect until the lien date following the effective date of the rescission. Thus, a rescission is not retroactive with respect to the taxes due and owing prior to the date of rescission. There is no refund or cancellation of unpaid taxes assessed for the period prior to the rescission since property taxes are determined by the facts existing on the lien date.⁴⁰

REPORTING CHANGES IN OWNERSHIP

CHANGE IN OWNERSHIP STATEMENT

Whenever there is a change in ownership of real property or a manufactured home that is subject to local taxation, the transferee must file a Change in Ownership Statement (COS) with the county assessor for the county in which the property is located.⁴¹ The statement must be filed at the time of recording the transfer of property or, if the transfer is not recorded, within 45 days of the date of the change in ownership unless the change in ownership occurred as the result of a death.

⁴⁰ *Long v. Newlin* (1956) 144 Cal.App.2d 509; *Doctors General Hospital v. County of Santa Clara* (1957) 150 Cal.App.2d 53; *Scollan v. Government Emp. Ins. Co.* (1963) 222 Cal.App.2d 181; *Seegmiller v. County of Nevada* (1997) 53 Cal.App.4th 1397, 1400.

⁴¹ Section 480(a).

1 In the case of change in ownership resulting from death, the COS must be filed with each county
2 in which the decedent's real property is located, as follows:⁴²

- 3 • If the estate is probated, prior to or at the time the inventory and appraisal are filed with
4 the court clerk; or
- 5 • If the estate is not probated, within 150 days after the date of death.

6 The COS must contain information detailing the transfer, including: a description of the
7 property, the date of transfer, the parties to the transaction, the amount of consideration paid for
8 the property (if any), and the terms of the transaction. The COS must be signed under penalty of
9 perjury unless the COS is attached to or accompanies the deed or other transfer document
10 evidencing a change in ownership. In that case, the notice, declaration under penalty of perjury,
11 and any information contained in the deed or other transfer document otherwise required on the
12 COS may be omitted.⁴³ The law authorizes a county assessor to impose a penalty for failure to
13 file change in ownership statements.⁴⁴

14 COS's are also required for reporting changes in control of legal entities (discussed below).⁴⁵

15 **PRELIMINARY CHANGE OF OWNERSHIP REPORT**

16 In general, the Preliminary Change of Ownership Report (PCOR) may be filed with the county
17 recorder at the time any document evidencing a transfer of title to real property is recorded.⁴⁶ If a
18 PCOR is not filed with the county recorder at that time, the county recorder may impose a \$20
19 additional recording fee.⁴⁷

20 The PCOR is used by county assessors to assist in the determination as to whether:

- 21 • A transfer results in a change in ownership;
- 22 • Any change in ownership exclusions apply; and
- 23 • The purchase price reflects fair market value.

24 Even though a document may "evidence" a change in ownership, once all the facts are presented,
25 it may not involve a change in ownership. The intent of the PCOR is that it be used in situations
26 where the transaction is not a change in ownership.

27 **REPORTING CHANGES IN CONTROL OF LEGAL ENTITIES**

28 Whenever there is a change in ownership as a result of change in control under section 64(c)(1)
29 of any corporation, partnership, LLC, or other legal entity (see Chapter 6), or whenever there is a
30 section 64(d) change in ownership, a COS must be filed with the State Board of Equalization
31 (Board) by the person or legal entity that acquired ownership control of such entity under section

⁴² Section 480(b).

⁴³ Section 480(c) and (d).

⁴⁴ Sections 480(c) and 482(a) and (b).

⁴⁵ Sections 480.1 and 480.2.

⁴⁶ Section 480.3.

⁴⁷ Section 480.3(b).

1 64(c)(1), or by the legal entity that underwent a change in ownership under section 64(d). In
 2 these cases, the COS must be signed under penalty of perjury and must be filed within 45 days
 3 from the date of the change in ownership; or within 45 days of a written request by the Board for
 4 the COS regardless of whether a change in ownership has occurred.⁴⁸ The COS must list all the
 5 counties in which the legal entity owns real property and must include a description of the
 6 property owned by the entity, the parties to the transaction, and the date of the change in
 7 ownership.

8 The Board's Legal Entity Ownership Program (LEOP) has a cooperative arrangement with the
 9 Franchise Tax Board (FTB) to assist in the discovery of legal entity changes in ownership.
 10 Several questions on the income tax returns filed by legal entities inquire whether there has been
 11 a change in ownership of the taxpayer in the past year.⁴⁹ If the taxpayer answers any of the
 12 questions in the affirmative, the FTB informs the Board. The Board then sends a questionnaire⁵⁰
 13 to the legal entity to assist it in determining whether the reported change in ownership results in a
 14 reappraisal of the entity's real property.

15 Monthly, the Board sends each county assessor a report identifying any properties in the county
 16 owned by a legal entity that may have undergone a change in ownership. A copy of the COS
 17 filed by the legal entity is also sent to the appropriate county assessor(s).

18 **CONSEQUENCES OF CHANGE IN OWNERSHIP**

19 A change in ownership results in the establishment of a new base year value for the portion of a
 20 property that has undergone such change in ownership, unless an exclusion applies.

21 Exclusions discussed in this handbook include the joint tenancy exclusion (see Chapter 2), the
 22 interspousal and registered domestic partner exclusions (see Chapter 11), the parent-child and
 23 grandparent-grandchild exclusions (see Chapter 12), the partition exclusion (see Chapter 13), the
 24 de minimis transfer exclusion (see Chapter 13), and the proportional interest transfer exclusion
 25 (see Chapter 6). Chapters 14 through 17 discuss transfers of base year values from previously
 26 owned to newly acquired properties.

⁴⁸ Sections 480.1 and 480.2.

⁴⁹ For corporations, Form 100, question J; for partnerships, Form 565, question T; and for LLCs, Form 568, question O.

⁵⁰ Form BOE-100-B, *Statement of Change in Control and Ownership of Legal Entities*.

CHAPTER 2: FORMS OF INDIVIDUAL PROPERTY OWNERSHIP

OVERVIEW OF FORMS OF PROPERTY OWNERSHIP

Ownership in real property can be held in four primary ways:

- Sole ownership
- Tenancy in common
- Joint tenancy
- Community property

Sole ownership (also called ownership in severalty) means that property ownership is vested in a single person or in a single legal entity such as a corporation or partnership. No division of the bundle of property rights is involved.

Tenancy in common, joint tenancy, and community property are forms of *concurrent ownership*; that is, ownership vests in two or more persons. Concurrent owners are known as co-owners or cotenants. Community property is a form of concurrent ownership of property specific to married couples and registered domestic partners. (See Chapter 11 for a discussion of interspousal and registered domestic partner exclusions.)

TENANCY IN COMMON

Tenancy in common is a form of concurrent property ownership in which multiple owners have an undivided interest in property. Each tenant in common owns a *fractional share* of the property and is entitled to simultaneous possession and enjoyment of the entire property. In addition, tenants in common may own the property in unequal shares and do not have the right of survivorship. This means that when one tenant in common dies, that person's share will not pass to the other co-owners by operation of law. As a result, each cotenant may sell or pledge his or her separate interest in the property and may bequeath the interest to his or her heirs. Both individuals and legal entities may own property as tenants in common.

The creation, transfer, or termination of a tenancy in common interest is a change in ownership of the undivided interest transferred.⁵¹

Example 2-1

X owns 60 percent of a property, and Y owns 40 percent as tenants in common. X dies. X's 60 percent interest will pass to his heirs, not to Y.

The transfer of X's 60 percent interest to his heirs will undergo a change in ownership unless an exclusion applies. Y's 40 percent interest in the property will remain unchanged and will not undergo a change in ownership. Y and X's heirs will become tenants in common.

⁵¹ Section 61(f).

JOINT TENANCY

Joint tenancy is a form of concurrent ownership in real property that is characterized by equal undivided interests in property. The owners are called co-owners, cotenants, or more commonly, joint tenants. Each joint tenant owns an equal share of the property and is entitled to the simultaneous possession and enjoyment of the entire property.⁵² If the deed creating a joint tenancy specifies unequal interests, a valid joint tenancy is not created. Instead, the property owners will be considered tenants in common.

The most significant feature of a joint tenancy is that it involves a right of survivorship. This means that, upon the death of a joint tenant, his or her interest in the property is equally divided and transferred to the remaining joint tenants. This transfer occurs automatically by operation of law; no probate or other estate administration is necessary. A form called the "Affidavit of Death of Joint Tenant" is commonly recorded to remove the deceased from title.

Example 2-2

Siblings A, B, and C acquire property in 1990 as joint tenants. Each has an undivided 1/3 interest in the property. When A dies in 2002, his joint tenancy interest automatically passes equally to B and C, who remain joint tenants (each would have an undivided 50 percent interest). This results in a change in ownership of 1/3 of the property. When B dies in 2007, her joint tenancy interest automatically passes entirely to C, who automatically becomes the sole owner of the property. This results in a change in ownership of 1/2 of the property.

For a joint tenancy to be created, it must be expressly stated in the deed. If a deed indicates co-ownership and does not clearly and expressly state that the property is a joint tenancy, the title is presumed to be a tenancy in common.⁵³ If a joint tenant transfers a joint tenancy interest to a third party without specifying joint tenancy, the transferee becomes a tenant in common. For example, a deed that states the following would be interpreted as creating a joint tenancy:

"A and B, as joint tenants"

Only individuals, not legal entities, can be joint tenants because the statutory definition of a joint interest is one that is "owned by two or more persons in equal shares." Additionally, joint tenancy interests may be held in trust (see discussion below).

TRANSFERS OF JOINT TENANCY INTEREST

The general rule⁵⁴ provides that the creation, transfer, or termination of a joint tenancy interest is a change in ownership in the interest transferred. Upon a change in ownership of a joint tenancy interest, only the interest that has been transferred is reappraised.

⁵² Civil Code section 683(a).

⁵³ Civil Code section 686.

⁵⁴ Section 61(e).

1 **Example 2-3**

2 The purchase of property by A and B, as joint tenants, is a change in ownership of the entire
3 property unless an exclusion applies.

4 **Example 2-4**

5 The transfer from A and B, as joint tenants, to C and D, as joint tenants, is a change in
6 ownership of the entire property.

7 **Example 2-5**

8 The subsequent transfer from C and D, as joint tenants, to C, as sole owner, is a change in
9 ownership of 50 percent of the property.

10 **JOINT TENANCY ORIGINAL TRANSFEROR EXCLUSION**

11 An exception to this change in ownership rule is the original transferor exclusion. An *original*
12 *transferor* is a person who creates a joint tenancy by transferring real property to others and
13 remains among the resulting joint tenants.⁵⁵ All joint tenants that do not qualify as original
14 transferors are referred to as *other than original transferors*.

15 **Example 2-6**

16 X owns a property as a sole owner. X deeds the property to herself and B as joint tenants.

17 No change in ownership results because X is an original transferor (since she was both
18 transferor and a resulting joint tenant). B did not own the property before the transfer.
19 Therefore, he is an other than original transferor.

20 Rule 462.040⁵⁶ broadened the ability of co-owners to obtain original transferor status in two
21 ways:

- 22 1. It allowed tenants in common to obtain original transferor status by transferring property
23 held as tenants in common to themselves as joint tenants without adding an additional
24 joint tenant (discussed below); and
- 25 2. It allowed joint tenants to transfer their joint tenancy interests to their revocable trusts for
26 the benefit of all of the other joint tenants to obtain original transferor status (discussed
27 below).

28 The advantage of obtaining original transferor status is that the transaction that creates the status
29 and subsequent transfers do not result in a change in ownership as long as the property remains
30 in joint tenancy and an original co-owner is on title. Thus, the following transfers do not
31 constitute a change in ownership:⁵⁷

⁵⁵ Section 65(b).

⁵⁶ Amendments effective November 13, 2003.

⁵⁷ Rule 462.040(b)(1).

- 1 • Transfers that create or transfer a joint tenancy interest if after such transfer the transferor
- 2 is one of the joint tenants (an original transferor).
- 3 • Transfers back to an original transferor.
- 4 • Transfers to all of the remaining joint tenants where at least one remaining joint tenant is
- 5 an original transferor.

6 **Example 2-7**⁵⁸

7 Y is the sole owner of the property. Y deeds to X, Y, and Z as joint tenants. Y is an original
 8 transferor, and X and Z are other than original transferors. Subsequently, X transfers her
 9 interest to Y and Z.

10 No change in ownership results because X transferred her interest to the remaining joint
 11 tenants, which includes an original transferor, Y.

12 To create original transferor status, all the transferors must be among the transferee joint tenants.
 13 If a transferor is missing, none of the transferors obtain original transferor status.⁵⁹

14 **Example 2-8**

15 A and B own property as tenants in common. A and B transfer to B, C, and D as joint
 16 tenants.

17 Because A is not among the transferees, B does not become an original transferor. B, C, and
 18 D are merely joint tenants. The transfer to C and D results in a 2/3 change in ownership.

19 A corollary to the original transferor exclusion is that when the interest of the last surviving
 20 original transferor is terminated, that interest and all other interests that were previously excluded
 21 will undergo a change in ownership. Consequently, 100 percent of the property will be subject to
 22 reappraisal.⁶⁰

23 **Example 2-9**

24 X and B transfer property to X, B, C, and D as joint tenants.

25 X dies first and no change in ownership results because B, an original transferor, remains as a
 26 joint tenant. However, assuming no other exclusion applies, a 100 percent change in
 27 ownership will occur when B dies because B will be the last surviving original transferor and
 28 C and D are other than original transferors.

29 **Spouse of Original Transferor**

30 A spouse of an original transferor who acquires an interest in a joint tenancy property during the
 31 time the original transferor owns the property will also be considered to be an original transferor.

⁵⁸ Rule 462.040.

⁵⁹ Rule 462.040(b)(1), Example 8.

⁶⁰ Section 65(c); Rule 462.040(b)(2).

1 In addition, a spouse who acquires an interest in the joint tenancy property by means of a transfer
 2 from the original transferor will also be considered to be an original transferor.⁶¹ In order for a
 3 spouse to become an original co-owner, the spouse has to acquire an interest in the joint tenancy
 4 property during the period that the original transferor spouse is on title.

5 ***Example 2-10***

6 X and B are joint tenants and transfer their property to X, B, C, and D as joint tenants. D is
 7 X's wife. C is unrelated to all.

8 No change in ownership results upon the transfer because transferors X and B are among the
 9 resulting joint tenants and therefore become original transferors. D becomes an original
 10 transferor because she received her interest by way of a transfer during her spouse's lifetime.
 11 C is an other than original transferor. Property will be subject to 100 percent reassessment
 12 when X, B, and D come off title and C is the sole owner.

13 **Transfer from Tenancy in Common**

14 Prior to November 13, 2003, a third person was required to be added as a cotenant in the
 15 resulting joint tenancy in order to create original transferor status. Thus, prior to
 16 November 13, 2003, if cotenants transferred property to themselves as joint tenants, without
 17 adding an additional joint tenant, the cotenants were merely joint tenants and would not become
 18 original transferors. However, effective for transfers on or after November 13, 2003, cotenants
 19 obtain original transferor status solely by transferring their cotenancy interests to themselves as
 20 joint tenants.

21 ***Example 2-11***

22 X and Y own property as tenants in common and transfer it to themselves as joint tenants.

23 If this transfer occurs on or after November 13, 2003, X and Y become original transferors
 24 and no change in ownership occurs.

25 If the transfer occurred prior to November 13, 2003, the transfer is still effective to make X
 26 and Y joint tenants and is excluded from change in ownership as a change in the method of
 27 holding title, but both are merely joint tenants and do not obtain original transferor status.

28 ***Example 2-12***

29 X and Y own property as tenants in common with X owning 60 percent and Y owning 40
 30 percent. X and Y transfer it to themselves as joint tenants.

31 If this transfer occurs on or after November 13, 2003, X and Y become original transferors
 32 and no change in ownership occurs.

⁶¹ Section 65(b); Rule 462.040(b)(1).

1 If the transfer occurred prior to November 13, 2003, the transfer is still effective to make X
2 and Y joint tenants. However, since joint tenants have equal interests, the transfer of X's 10
3 percent interest to Y results in a reassessment of that interest.

4 ***Example 2-13***

5 X and B, tenants in common, transfer their property to X, B, and C as joint tenants.

6 No change in ownership results because X and B are original transferors. Prior to
7 November 13, 2003, the addition of C was required for X and B to obtain original transferor
8 status.

9 **Revocable Trusts and Joint Tenancies**

10 Joint tenants can transfer their respective property interests to revocable living trusts (or a joint
11 trust) for the purpose of maintaining the ownership and survivorship aspects of joint tenancy. A
12 transfer of existing joint tenancy interests into a revocable trust will not sever a joint tenancy for
13 property tax purposes if the trust provisions maintain the characteristics of a joint tenancy,
14 including the right of survivorship. To maintain the right of survivorship, the trust must require
15 that upon death the joint tenant's interest passes equally to all of the surviving joint tenants. A
16 trust that passes a life estate in the joint tenant's interest to the surviving joint tenant tenants
17 maintains the right of survivorship for property tax purposes.

18 So long as a revocable trust meets these requirements, the transfer of joint tenancy interests into
19 such a trust for the equal benefit of all other joint tenants makes the transferring joint tenants
20 original transferors if the transfer occurs on or after November 13, 2003;⁶² transfers prior to that
21 date do not result in original transferor status.

22 ***Example 2-14***

23 X and B acquired property as joint tenants. Subsequently, X and B transfer their property to
24 themselves as trustees of the X-B Revocable Living Trust, which provides that: (1) each joint
25 tenant places his respective joint tenancy interest in trust for the benefit of the other joint
26 tenant; (2) on X's death, X's interest will transfer to B; and (3) on B's death, B's interest will
27 transfer to X.

28 For property tax purposes, upon the transfer of the property into the revocable trust, there is
29 no change of ownership.⁶³ If the transfer occurred on or after November 13, 2003, no
30 severance of the joint tenancy occurs because the trust provisions duplicate the essential
31 characteristics of a joint tenancy; both X and B become original transferors.⁶⁴ Upon the death
32 of either X or B, there will be no reassessment upon the transfer to the remaining original
33 transferor.

⁶² Rule 462.040(b)(1).

⁶³ Section 62(d).

⁶⁴ Rule 462.040(b)(1).

1 **Example 2-15**

2 A owns property and transfers it to A, B, and C as joint tenants. A is the original transferor. B
3 and C are other than original transferors. Subsequently, B transfers his share to himself as
4 trustee of B's revocable living trust, which provides that upon B's death, B's interest will
5 transfer to A and C. B becomes an original transferor. C remains an other than original
6 transferor. Then C transfers his interest to C's revocable trust, which provides that upon C's
7 death, X is the beneficiary.

8 The transfer of C's interest to C's Trust terminates the joint tenancy as to C's interest because
9 C's trust does not provide that the other joint tenants are the beneficiaries. Thus, C becomes a
10 tenant in common, and the transfer results in a change in ownership of C's 1/3 interest. A and
11 B remain joint tenants and original transferors as to their 2/3 interest.

12 **PRESUMPTION OF ORIGINAL TRANSFEROR STATUS**

13 For all joint tenancies created on or before March 1, 1975, there is a rebuttable presumption that
14 all current joint tenants as of that date are original transferors.⁶⁵ Generally, a rebuttable
15 presumption is an inference that, in the absence of any evidence to the contrary, is to be made
16 and accepted as an established fact. This presumption permits (but does not require) the county
17 assessor to assume in such cases that persons are original transferors when, in fact, they may not
18 be. The presumption was created for administrative convenience for the county assessor.⁶⁶
19 However, if the county assessor chooses to investigate the origin of a joint tenancy, the
20 presumption may be rebutted by a review of the chain of title or other evidence. Where
21 contradictory evidence exists, the presumption may be overcome.

22 **Example 2-16**

23 X and B purchased a property together and then B died in 1971. In 1973, X transferred the
24 property to herself and C, as joint tenants. X died in 1981 and the entire property passed to C
25 by operation of law as the surviving joint tenant. There is documentation of all purchases and
26 transfers.

27 In this case, substantiating documentation establishes a complete chain of title. Such
28 evidence is sufficient to overcome the presumption that C is an original transferor; as a
29 consequence, C is not an original transferor.

30 There is a change in ownership requiring a 100 percent reassessment of the property as of the
31 date of X's death in 1981, unless an exclusion applies.

32 **CORRECTING DEED TO JOINT TENANCY**

33 When more than one person's name appears on a deed, it is rebuttably presumed that all persons
34 listed on the deed have ownership interests in property. In overcoming this presumption,

⁶⁵ Section 65(e).

⁶⁶ *Report of the Task Force on Property Tax Administration*, January 22, 1979; *Implementation of Proposition 13, Property Tax Assessment*, October 29, 1979, California Assembly Revenue and Taxation Committee.

1 consideration may be given, but not limited, to the existence of a written document executed
 2 prior to or at the time of the conveyance or other written evidence.⁶⁷ The standard for rebutting
 3 the deed presumption in most instances is clear and convincing evidence. As mentioned earlier,
 4 operative words must be clearly expressed declaring the intent to create a joint tenancy. If the
 5 deed does not express this intent, some other documentation must be provided that declares the
 6 intent to create a joint tenancy.

7 Persons holding joint title to property, such as tenants in common, may be considered to be joint
 8 tenants and original transferors if there is reasonable cause to believe that the parties intended to
 9 create a joint tenancy and each person was a transferor among the persons holding title.
 10 *Reasonable cause* means a sales contract, deed, affidavit of death of joint tenant, a trust, will, or
 11 estate plan or other written agreement.⁶⁸

12 Other types of evidence might include sales contracts, Deposit Receipt and Purchase
 13 Agreements, escrow instructions, recorded Deeds of Trust, wills, notarized agreements, and
 14 affidavits. The most weight would be given to those documents that were executed and notarized
 15 prior to or contemporaneous with the recording of the deed. Next in weight would be those
 16 documents that were executed prior to the recording, but that were not notarized. The least
 17 weight, if any, would be given to affidavits signed much later in time. The county assessor must
 18 make a determination based on all the facts available to him or her.

19 *Example 2-17*

20 On December 20, 2000, X and B jointly purchase their principal residence and title is
 21 recorded as tenants in common. The sales contract states that X and B intended to take title as
 22 joint tenants. In 2004, X and B each create a revocable living trust transferring their
 23 respective interests in the property to their trusts for the benefit of each other.

24 Since the transfer to the trusts occurred after November 13, 2003, the county assessor may
 25 determine that the sales contract and trust instruments establish that X and B intended to hold
 26 title as joint tenants upon purchase, and that each subsequently became an original transferor.

27 **TERMINATION OF JOINT TENANCY AND OF ORIGINAL TRANSFEROR STATUS**

28 When a joint tenancy is terminated, the original transferor status of a joint tenant terminates.⁶⁹

29 *Example 2-18*

30 X owns real property and transfers a 50 percent interest to B as a tenant in common resulting
 31 in a change in ownership of that 50 percent interest. They subsequently transfer to
 32 themselves as joint tenants and, as a result, become original transferors. X dies and his joint
 33 tenancy interest passes to B by operation of law without a change in ownership because B is

⁶⁷ Rule 462.200(b).

⁶⁸ Rule 462.040(d).

⁶⁹ Rule 462.040(b)(3).

1 an original transferor. Upon X's death, the joint tenancy is terminated and B ceases to be an
2 original transferor.

3 **SEVERING A JOINT TENANCY**

4 A joint tenant may sever his/her joint tenancy interest⁷⁰ by written deed or declaration. Such a
5 document must be properly executed by the severing joint tenant and must express an intent to
6 sever. In addition to an agreement to sever, the following transfers may sever a joint tenancy
7 interest:

- 8 • Transfer of a joint tenant's interest to a third person (except spouse).
- 9 • Transfer of a joint tenant's interest to a trust for the benefit of a third person (contrary to
10 joint tenants' survivorship rights) or to a legal entity (such as a partnership).
- 11 • Transfer of a severing joint tenant's interest to a remaining joint tenant.

12 The effect of a valid severance is that the survivorship rights are extinguished as between the
13 severing joint tenant and the other joint tenants, resulting in a tenancy in common to that extent;
14 the transfer does not affect the continuation of the joint tenancy between the interests of any two
15 or more remaining joint tenants. The requirement that a severance be in writing is to prevent a
16 "secret" severance by one joint tenant by making his attempt invalid and ineffective for
17 terminating the survivorship rights of the other joint tenants in his interest, unless it is recorded
18 or all joint tenants agree in writing. Only upon the accomplishment of a valid severance does
19 one's position as a joint tenant and an original transferor, if applicable, cease.

⁷⁰ Civil Code section 683.2

CHAPTER 3: TRUSTS

1
2 A primary characteristic of a trust that distinguishes it from other interests in real property is that
3 a trust involves a separation of legal title to the property held in trust from the equitable or
4 beneficial title to such property. For all trusts, the trustee holds the legal title. For revocable
5 trusts, the equitable or beneficial title is held by the trustor, and for irrevocable trusts, the
6 equitable or beneficial title is held by the present beneficiary. Only a transfer of the present
7 beneficial ownership interest will result in a change in ownership of real property held in the
8 trust.

DEFINITIONS

9
10 The following definitions pertain to the various types of trusts used to hold title to interests in
11 real property or legal entities.

TRUST TERMS

12
13 The *trustor*, also called the *settlor*, *creator*, or *grantor*, is the person who establishes the trust and
14 transfers assets into the trust. With revocable trusts, the trustor is commonly, but not necessarily,
15 also the trustee and the named present beneficiary. A trust may have multiple trustors, such as a
16 married couple.

17 A *trustee* is the individual or entity (such as a bank) who administers the trust and holds legal
18 title to the trust property as a fiduciary. The trustee is not considered to be the present beneficial
19 owner of the trust property.

20 A *successor trustee* is a trustee who follows or succeeds an earlier trustee.

21 The *beneficiaries* are the persons or entities (such as a charity) designated by the trust instrument
22 to receive the benefit of ownership of the trust's property and assets. Such benefit may include
23 the ability to use the property or receive income from the property.

24 A *present beneficiary* is the person or entity who has the current beneficial use of the property.

25 A *future beneficiary* is someone who will only receive the beneficial use of the trust property at
26 some future time.

27 A *remainderman* is a future beneficiary who will receive the beneficial use of the trust property
28 after an intervening estate terminates, such as a life estate or estate for years.

TYPES OF TRUSTS

29
30 *Inter vivos trusts* (also called *living trusts*) take effect during the life of the trustor and may be
31 revocable or irrevocable.

32 A *revocable trust* is an arrangement in which the trustor retains beneficial ownership and control
33 of the property transferred into the trust by reserving the power to amend or revoke the trust.
34 Revocable trusts are created during the life of the trustor. The trust becomes irrevocable upon the

1 death of the trustor or upon circumstances specified in the trust (for example, upon the trustor's
2 incapacity). A revocable trust is the most common type of inter vivos or living trust.

3 An *irrevocable trust* is an arrangement in which the trustor relinquishes the beneficial ownership
4 and control of the property. The trustor cannot revoke or amend the trust after it is established.
5 Thus, an irrevocable trust permanently dedicates the property transferred into the trust to the
6 benefit of the trust beneficiaries. The *present beneficial owners* of property held in an irrevocable
7 trust are the named present beneficiaries, who may or may not include the trustor.

8 *Testamentary trusts* are created by will, take effect only upon death of the trustor, and are always
9 irrevocable.

10 A *charitable remainder trust* is an irrevocable trust to which the trustor transfers property, the
11 terms of which provide for (i) an income interest (an "annuity" or "unitrust" interest) retained by
12 the trustor or transferred to another non-charitable beneficiary, and (ii) a charitable remainder in
13 the property at the termination of that income interest. Under Section 62(d), a transfer to such a
14 trust would not be a change in ownership if the trustor or the trustor's spouse is the present
15 income beneficiary of the trust.

16 A *charitable lead annuity trust* (CLAT) is an irrevocable trust into which the grantor transfers
17 property for the benefit of a charity which is the sole income beneficiary for a number of years,
18 upon the expiration of which the remainder beneficiaries, who are family members, receive the
19 remainder in the property at the termination of the income interest. The trust is irrevocable by the
20 grantor and no interest is retained by the grantor, except the right to report all the income payable
21 to the charity on the grantor's personal tax returns.

22 A *grantor retained annuity trust* (GRAT) is an irrevocable trust into which the grantor transfers
23 property for the benefit of a remainder beneficiary who is a family member. The grantor retains
24 the right to receive the trust income, in periodic fixed amounts, for a specified term. For property
25 tax purposes, such trusts involve a transfer to an irrevocable trust, with the income therefrom
26 reserved to the trustor or other beneficiary and with any remainder in the property at the
27 termination of the income interest to designated family members as the remaindermen.

28 A *qualified personal residence trust* (QPRT) is an inter vivos, irrevocable trust in which the
29 trustor (generally the parent) retains the present beneficial enjoyment of the home (whether a
30 principal residence or vacation home) for a set period of years. At the end of the trust term, the
31 trust terminates and the trustee of the trust transfers title to the residence to the beneficiaries
32 (generally children).

33 An *Individual Retirement Account* (IRA) is a trust established by an individual to provide income
34 to the individual during his/her retirement years. (See Chapter 10, Employee Benefit Plan, for a
35 discussion of IRAs.)

36 *Massachusetts trusts* or *business trusts* are legal entities that are managed for profit for the
37 benefit of trust certificates holders similar to corporate stockholders. For property tax purposes, a

1 Massachusetts or business trust is treated as a legal entity and not as a trust.⁷¹ (See Chapter 6 for
2 a discussion of Massachusetts trusts.)

3 **CHANGE IN OWNERSHIP**

4 As a general rule, transfers of real property into and out of a trust result in a change in
5 ownership, unless an exclusion applies.⁷² Additionally, a transfer upon the termination of a trust
6 results in a change in ownership, unless an exclusion applies.⁷³

7 For purposes of change in ownership, it is necessary to determine whether the present beneficial
8 ownership has changed. To determine who has the present beneficial ownership interest in the
9 trust property, you must disregard the trustee's legal title and look to the present beneficiary
10 named in the trust. This is referred to as "looking through" a trust.

11 **REVOCABLE TRUSTS**

12 The trustor retains the present beneficial ownership interest of the property transferred to a
13 revocable trust because the trustor has the power to amend or revoke a revocable trust. Thus,
14 transfers of property into or out of a revocable trust do not result in a change in ownership,
15 unless, as noted above, the transfer is to someone other than the trustor or to a person for whom
16 an exclusion is available.⁷⁴ This is true even if the trustor has given a third party beneficiary the
17 right to use the trust property or the right to receive income from the trust property, or the trustee
18 has the right to sell or encumber the trust property.

19 *Example 3-1*

20 X and B transfer property into the X-B Revocable Living Trust for the benefit of C. Five
21 years later, they decide to revoke the trust and title to the property is transferred back to X
22 and B.

23 X and B at all times retained the present beneficial ownership of the trust property because
24 they had the power to revoke the trust. There is no change in ownership when property was
25 transferred into or out of the revocable trust upon the trust creation or termination,
26 respectively.

27 **IRREVOCABLE TRUSTS**

28 The present beneficial owners of property held in an irrevocable trust are the named present
29 beneficiaries because the trustor does not have the power to amend or revoke an irrevocable
30 trust. Because the trustor makes a permanent dedication of such property and thereby passes the
31 present beneficial ownership interest to the named beneficiaries, a transfer of real property into
32 an irrevocable trust results in a change in ownership unless an exclusion applies.⁷⁵ In addition,

⁷¹ Rule 462.160(e).

⁷² Rule 462.160(a).

⁷³ Rule 462.160(c) and (d).

⁷⁴ Section 62(d).

⁷⁵ Rule 462.160(a).

1 when a revocable trust becomes an irrevocable trust (for example, upon the death of the trustor),
 2 there is a change in ownership unless an exclusion applies.

3 **Example 3-2**

4 Z transfers income-producing real property to revocable living Trust X in which Z is the sole
 5 present beneficiary. Trust X provides that upon Z's death, income from the trust property is to
 6 be distributed to Z's brother B for his lifetime. Upon Z's death, 100 percent of the property
 7 held in Trust X, representing B's present beneficial interest, undergoes a change in
 8 ownership.⁷⁶

9 There is no change in ownership when property is transferred to an irrevocable trust (or when a
 10 revocable trust becomes irrevocable) *and either* (1) the trustor or trustor's spouse is the sole
 11 present beneficiary of the trust, *or* (2) all present beneficiaries of the trust qualify for exclusions
 12 from change in ownership.

13 Because the present beneficiary of an irrevocable trust is considered the owner of the trust
 14 property, the distribution of trust property to a beneficiary upon the termination of an irrevocable
 15 trust does not result in a change in ownership.⁷⁷ If the ownership interest is identical before and
 16 after the transfer, this is merely a change in the method of holding title and no change in
 17 ownership occurs.⁷⁸ However, if ownership interests are not the same, the property may be
 18 subject to a change in ownership, unless an exclusion applies.

19 **Multiple Beneficiaries and Sprinkle Provisions**

20 Where a trustee of an irrevocable trust has total discretion to distribute the trust property or
 21 income to a number of potential beneficiaries (*sprinkle power*), the property is subject to change
 22 in ownership if any of the potential beneficiaries lack an exclusion. This is because even though
 23 the trustee may not elect to distribute the trust property or income to a non-excludable
 24 beneficiary, the trustee has the authority to make such a distribution.⁷⁹ However, if all potential
 25 beneficiaries to whom the property may be distributed under the trustee's sprinkle power qualify
 26 for an exclusion, there is no change in ownership.

27 **Example 3-3**

28 A Trustor created an irrevocable trust into which he transferred real property. The trust
 29 instrument recites that the trust is created for the benefit of the Trustor's "descendants,"
 30 without naming specific persons. The provision for distribution of the trust income and
 31 principal authorizes the trustee, at any time and from time to time, to distribute all or any part
 32 of the net income and/or principal of such trust to any one or more of the beneficiaries of
 33 such trust at the sole discretion of the Trustee.

⁷⁶ Rule 462.160, Example 1.

⁷⁷ Rule 462.160(b)(5).

⁷⁸ Section 62(a)(2).

⁷⁹ Rule 462.160(b)(1)(A).

1 Since the trust grants the trustee sole discretion to make distributions to any member of the
2 class of beneficiaries, this constitutes a "sprinkle power." Furthermore, the beneficiaries of
3 the trust may include descendants for whom no exclusions are available (for example, great
4 grandchildren). Therefore, 100 percent of the property interests transferred are subject to
5 change in ownership and reappraisal, because the trustee could potentially distribute 100
6 percent of those interests to a beneficiary who is not excludable.

7 ***Example 3-4***

8 A revocable trust is established for the benefit of the trustor's spouse, children, and nephew in
9 equal shares. When the trustor dies and the trust becomes irrevocable, there will be a change
10 in ownership of the interest transferred to the nephew because the nephew does not qualify
11 for an exclusion.

12 If, instead of specifying the interest that each beneficiary was to receive, the trust had given
13 the trustee a sprinkle power, all of the real property held in the trust would undergo a change
14 in ownership and be reassessed because the nephew *could* receive 100 percent of the property
15 or income.

16 **Filing of a Subdivision Map for Property Held in a Trust**

17 The recording of a subdivision map for the purpose of dividing properties held in an irrevocable
18 trust does not result in a change in ownership.

19 ***Example 3-4***

20 X establishes an irrevocable trust for his three children. The principal asset in the trust is a
21 three-acre parcel of real property. Under the terms of the trust, each of X's three children is to
22 receive a specific one-acre portion of the parcel.

23 The recording of a map dividing the three acres into three one-acre parcels prior to the
24 termination of the trust will not cause a change in ownership or a reappraisal. A subsequent
25 transfer of each parcel from the trust to each child is not a change in ownership because the
26 ownership of each parcel is the same before and after the transfer.

CHAPTER 4: LIFE ESTATES AND ESTATES FOR YEARS

A change in ownership is a transfer of a present interest in real property, including the beneficial use thereof, the value of which is substantially equal to the value of a fee interest.⁸⁰ The creation or termination of a life estate or estate for years for 35 years or longer is substantially equivalent to a transfer of a fee interest in the property.⁸¹ The following is a discussion of these statutes as applied to life estates and estates for years.

LIFE ESTATES

A *life estate* grants the right to the use of a property or the income from a property for the lifetime of a designated person. The designated lifetime can be that of either the life tenant or another person. The property owner who grants the right is known as the *transferor*, *creator*, or *grantor*. The party receiving this right is commonly known as the *life tenant*. A life estate can be granted or reserved by deed or created by will, trust, or other written instrument; no consideration is necessary. When a life tenant dies, the life estate terminates. The party receiving the property when a life estate terminates is the *remainderman*.

The creation of a life estate results in a change in ownership of the property unless the life estate is reserved in the transferor or the transferor's spouse, or unless the creation of the life estate itself otherwise qualifies for another exclusion.⁸²

The termination of a life estate upon the death of a life tenant is a change in ownership unless the remainderman is otherwise excluded. When a life estate terminates upon the death of a life tenant, the grantor of the life estate is considered to be the transferor and not the life tenant. The transfer from the grantor to the remainderman is a change in ownership unless the remainderman is the transferor or the transferor's spouse or another exclusion applies.

Example 4-1

X records a deed that transfers property to cousin B, for B's life, with remainder to nephew C.

X is the transferor of the property to B, the life tenant. The creation of the life estate is a change in ownership.

Upon the death of the life tenant B, the life estate terminates, and the property transfers to C, the remainderman. When a life estate terminates on the death of a life tenant and the remainderman becomes possessory, the transfer is between the creator of the remainder interest and the remainderman rather than between the life tenant and the remainderman. Thus, the termination of the life estate is also a change in ownership because no exclusion exists for a transfer to a nephew.

⁸⁰ Section 60.

⁸¹ Sections 61(c) and 62(e).

⁸² Section 62(e); Rule 462.060(a).

1 **TRANSFER BY LIFE TENANT**

2 When a life tenant transfers his or her life estate interest *during his or her lifetime*, this results in
 3 a change in ownership, unless an exclusion applies.⁸³ In this situation, the transferor is considered
 4 to be the life tenant, not the original grantor of the life estate. If the life tenant transfers the life
 5 estate to a third party, the term of the life estate does not change and is still based on the person's
 6 lifetime indicated in the document that created the life estate.

7 ***Example 4-2***

8 X grants to friend Z a life estate in a property, with a remainder interest to nephew C. During
 9 Z's life, Z transfers her life estate to cousin D.

10 The creation of the life estate is a change in ownership. Z's transfer of her life estate to D is
 11 another change in ownership. Because Z is still alive, Z is the transferor of the life estate to
 12 D, not X.

13 Upon Z's death, the life estate terminates and the property transfers to C. Because the
 14 termination of the life estate occurred due to Z's death, X is the transferor. Thus, the
 15 termination of the life estate is a change in ownership because no exclusion exists for a
 16 transfer from X to nephew C.

17 ***Example 4-3***

18 An owner of property dies testate. In her will she left a residence to her sister for her life with
 19 the remainder interest to her nephew, her sister's son. Eight years later the sister-in-law
 20 transfers her life estate to her son by quitclaim deed.

21 A change in ownership occurred when the life estate was created because no exclusion exists
 22 for a sibling transfer. The vesting of the nephew's remainder interest as the result of the
 23 termination of the life estate is another change in ownership. Because the sister transferred
 24 the interest to her son who is the remainderman, the vesting remainder interest is excluded
 25 from change in ownership as a parent-child transfer.

26 **ESTATES FOR YEARS**

27 An estate for years differs from a life estate in that it has a specified duration. The creation or
 28 transfer of an estate for a period of less than 35 years is not a change in ownership because the
 29 transferor is not deemed to have transferred a beneficial ownership interest substantially
 30 equivalent to a fee interest in the property. Therefore, for property tax purposes, the creation of
 31 an estate for years of 35 years or longer is considered to be the substantial equivalent of a fee
 32 interest. The creation of an estate for 35 years or longer is a change in ownership at the time of

⁸³ Section 62(e); Rule 462.060(a).

1 the creation, unless such estate is reserved in the transferor or transferor's spouse⁸⁴ or another
2 exclusion from change in ownership applies.

3 A subsequent transfer of the estate for years by the transferor or the transferor's spouse to a third
4 party is also a change in ownership.

5 The termination of an estate for any period is a change in ownership, unless the property reverts
6 back to the transferor or transferor's spouse⁸⁵ or another exclusion applies. The termination is a
7 change in ownership even if it terminates before the end of the stated period.

8 ***Example 4-4***

9 X transfers property to B for a term of 40 years, after which the property is to go to C. Upon
10 the transfer to B, there is a change in ownership because the estate for years is for more than
11 35 years, unless an exclusion applies. Upon the expiration of B's 40-year term, there is
12 another change in ownership when the property is transferred to C, unless an exclusion
13 applies upon the transfer from X to C.

⁸⁴ Rule 462.060(b).

⁸⁵ Section 62(e).

CHAPTER 5: LEASES

A *lease* is a contractual agreement under which an owner transfers the rights to possession and use of a property for valuable consideration for a definite term, including renewal options. At the end of a lease term, the owner has the absolute right to retake, control, and use the property. This is called a *reversionary right*. For real property, a lease gives rise to the legal relationship of landlord and tenant, or lessor and lessee.

When a property owner leases real property, there is a transfer of a present beneficial use of the property to the lessee. However, not all leases result in transfers of present beneficial ownership interests that are substantially equivalent to the value of a fee interest. The Legislature has determined that whether a change in ownership occurs upon the creation or transfer of a lease or property subject to a lease depends on the duration of the lease.

A change in ownership of the leased property occurs in the following situations:

- Creation of a lease for a term of 35 years or longer.
- Termination of a lease which had an original term of 35 years or longer.
- Transfer, sublease, or assignment by a lessee of a leasehold interest with a remaining term of 35 years or longer.
- Transfer by the lessor of a lessor's interest in taxable real property subject to a lease with a remaining term of less than 35 years.⁸⁶

An exception to this is a transfer of mineral property leases or property subject to mineral leases, which is discussed at the end of this chapter under Mineral Leases.

The counterpart to the above rules is that the following transfers of a lessee's interest or a lessor's interest in leased property are *not* a change in ownership:

- Creation of a leasehold interest in a real property for a term of less than 35 years.
- Transfer, sublease, or assignment by a lessee of a leasehold interest with a remaining term of less than 35 years (regardless of the original term of the lease).
- Termination of a leasehold interest which had an original term of less than 35 years.
- Transfer by a lessor of his or her interest in real property subject to a lease, with a remaining term of 35 years or longer, whether to the lessee or another party.⁸⁷

When a lease has been created, the term must be established to determine whether a change in ownership has occurred. Once a long-term lease has been created, to determine whether there is a change in ownership upon the subsequent transfer of a lessor's or lessee's interest, the remaining leasehold period must be established. If the remaining term of a lease is 35 years or longer, a transfer by a lessee of the leasehold interest (for example, an assignment of the lease to another

⁸⁶ Section 61(c).

⁸⁷ Rule 462.100(b).

1 tenant) results in a change in ownership (this is because the lessee is considered to have the
2 beneficial ownership of the property).

3 If the remaining term of a lease is 35 years or longer, a transfer by a lessor of his interest does
4 not result in a change in ownership (this is because the lessee, and not the lessor, is considered to
5 have the beneficial ownership of the property). For example, the sale of the underlying fee
6 interest in the property subject to a 40-year lease does not result in a change in ownership.

7 If there is a transfer of a lessor's interest in taxable real property subject to multiple leases, one or
8 more of which has a remaining term of less than 35 years, and one or more of which has a
9 remaining term of 35 years or longer, there is a change in ownership *only* of that portion of the
10 property subject to the lease(s) with a remaining term of less than 35 years.⁸⁸

11 **TERM OF LEASE**

12 For change in ownership purposes, the term of a lease is measured by adding the length of the
13 original term and any written renewal options.⁸⁹ Written renewal options are options given to the
14 lessee and stated in a lease contract that authorizes the lessee to either renew or extend the stated
15 lease term. Such options are included as part of the total lease term whether or not they are
16 exercised.

17 ***Example 5-1***

18 X leases a property from Y for an original term of 25 years. The written lease also provides that X has
19 two 10-year options to extend the lease term. The X-Y lease is considered to have a term of 45 years,
20 whether or not X ultimately exercises either or both of the options. Thus, the creation of the lease
21 would subject the property to a change in ownership.

22 **HOMEOWNERS' EXEMPTION PRESUMPTION**

23 For leased land on which homes eligible for the homeowners' exemption⁹⁰ are located, it is
24 conclusively presumed that all leases include written renewal options for at least 35 years,
25 whether or not such renewal options in fact exist.⁹¹ Thus, the transfer of a lessor's interest in
26 leased land on which a home eligible for the homeowners' exemption is located does not result in
27 a change in ownership of the leased land.

28 ***Example 5-2***

29 X leased a lot from the W Company for a term of 25 years and built a house. After the house
30 was completed, X moved into the house and filed for the homeowners' exemption. Ten years
31 later, W Company sold the lot to B Company. Since X owns the house and occupies it as his

⁸⁸ Rule 462.100(a)(2)(B).

⁸⁹ Rule 462.100(d).

⁹⁰ Section 218.

⁹¹ Section 62(g); Rule 462.100(e). Where the law raises a conclusive presumption, evidence cannot be received to the contrary. A conclusive presumption is not a rule of evidence but a substantive law so fixed by the legislative body as to admit no controverting proof (31 Cal.Jur.3rd 104).

1 primary residence, the lease term is presumed to have a renewal option of at least 35 years.
 2 Thus, the transfer of the lot from W Company to B Company did not result in a change in
 3 ownership because the lease term is presumed to be greater than 35 years.

4 If the homeowner lessee creates, transfers to another, or terminates the land lease in which the
 5 term is 35 years or longer, there is a change in ownership requiring reappraisal of the land
 6 subject to that lease. If there is a transfer of a home on leased land and if that home is eligible for
 7 the homeowners' exemption, the conclusive presumption applies with the result that the land
 8 lease is presumed to be for a term of 35 years. Thus a change in ownership of the land as well as
 9 the home occurs upon the new lessee's purchase of the home and assignment of the lease.

10 **AMENDMENT OR EXTENSION OF LEASE TERM**

11 The addition to or extension of a lease term which was originally 35 years or longer, at a time
 12 when it has a remaining term of less than 35 years, is not a change in ownership. That long-term
 13 lease was already reassessed for a change in ownership. The mere extension of time is not a
 14 substantial modification of the original lease such that the original lease is deemed terminated
 15 and a new lease entered into. However, if in addition to the extension of its term back to a term
 16 of 35 years or longer, such a lease was modified so substantially or extensively in its terms, it
 17 would be deemed terminated, resulting in a change in ownership. Then amendment or
 18 modification would result in the creation of a new lease with a period of 35 years or longer,
 19 causing a second change in ownership under section 61(c).

20 **TERMINATION OF LEASES**

21 A change in ownership occurs upon the termination of a lease if the original term, including
 22 written renewal options, is 35 years or longer. During the leasehold period, there is no change in
 23 ownership when the remaining lease term falls below the 35-year mark if the lessor does not
 24 transfer the interest. Prior to the termination of such lease, when the remaining lease term falls
 25 below the 35-year mark, the primary ownership of the property shifts from the lessee to the
 26 lessor; however, there is no change in ownership because there has been no transfer of the
 27 property. Thus, absent a transfer of either the lessor's or lessee's interests, the real property
 28 subject to such a lease will undergo a change in ownership when the property reverts back to the
 29 lessor when the lease expires or is otherwise terminated.

30 ***Example 5-3***

31 A lease with a 40-year term commences January 1, 1970 and runs to its termination date on
 32 January 1, 2010 with neither the lessor nor the lessee transferring their interests. The lease
 33 termination in 2010 is a change in ownership and the property is subject to reassessment.

34 ***Example 5-4***

35 A lease with a 40-year term commences January 1, 1970. In 2005, the lessor transfers the real
 36 property, subject to the lease. A change in ownership occurs since the remaining term of the
 37 lease is less than 35 years. Because the new lessor-lessee relationship was established when

1 the remaining term was less than 35 years, the primary ownership at that time is held by the
 2 new lessor. Since the lessor's interest was already reassessed when it acquired the primary
 3 ownership in 2005, the property will not undergo another change in ownership upon the
 4 termination of the lease in 2010.

5 **MERGER OF LEASEHOLD AND LEASED FEE INTERESTS**

6 Rule 462.100(b)(2)(A) provides that a transfer of the lessor's interest subject to a lease with a
 7 remaining term of 35 years or more "whether to the lessee or another party" does not result in a
 8 change in ownership. Thus, if there were 40 years remaining on a lease and the lessee were to
 9 purchase the lessor's underlying fee interest, the merger of the leasehold and fee interests would
 10 not result in a change in ownership. In such an instance, even though a merger of interests
 11 constitutes a "termination" of the leasehold under general property law principles,⁹² the merger
 12 of the two interests would not be considered a "termination" of a leasehold interest causing a
 13 change in ownership. However, if the lessee purchases the underlying fee interest from the lessor
 14 while the remaining term of the lease is less than 35 years, the transfer of the fee interest to the
 15 lessee would result in a change in ownership under Rule 462.100(a)(2)(A).

16 **REAPPRAISAL OF LEASED PROPERTY**

17 When a change in ownership of property subject to a lease has occurred, the entire property
 18 subject to the lease (both the lessee's present interest and the lessor's reversionary interest) is
 19 reappraised.⁹³

20 *Example 5-5*

21 A shopping center has large anchor stores, all with leases longer than 35 years, and smaller
 22 retail stores, all with leases for 20 years or less.

23 At the commencement and termination of each anchor store lease, there is a change in
 24 ownership of that portion of the property leased by the anchor store; there is no change in
 25 ownership at the commencement or termination of the smaller retail store leases.

26 If the entire shopping center is sold, there would not be a change in ownership of the property
 27 leased by the anchor stores with 35 years or more remaining on their leases, but there would
 28 be a change in ownership of all property subject to lease terms of less than 35 remaining
 29 years, including all the smaller retail stores.

30 **SUBLEASES**

31 Subleases are analyzed in the same manner as leases. A sublessee is considered to be the primary
 32 owner for property tax purposes when a sublease is for a term of 35 years or longer.

⁹² Civil Code section 1933.

⁹³ Rule 462.100(c).

1 **Example 5-6**

2 X leases a property for 50 years, including written renewal options, to B. This results in a
3 change in ownership, with B becoming the present beneficial owner.

4 After 12 years (while there is 38 years remaining on the lease), lessee B subleases the property to
5 C for 38 years. This results in a change in ownership because B, the present beneficial owner,
6 has entered into a sublease for a term of more than 35 years, thereby transferring the present
7 beneficial ownership interest of the property to the sublessee C.

8 **EXEMPT GOVERNMENT-OWNED PROPERTY**

9 When a tax-exempt government entity leases its property to a private owner, the entity's interest
10 is exempt from taxation, but the lease creates a possessory interest that is subject to assessment
11 and taxation (see Chapter 10). When a private owner leases its property to a tax-exempt
12 governmental entity, the private owner's interest remains subject to assessment and taxation. The
13 leasing of taxable real property for a term of 35 years or longer does not create or transfer
14 ownership of the property such that the government entity would be deemed to be the fee
15 "owner" for tax exemption purposes. However, the leasing of taxable real property for a term of
16 35 years or longer to a tax-exempt governmental entity does result in a change in ownership of
17 the entire property under section 61(c). The property is assessed to the private owner-lessor, who
18 is deemed to be the owner of both the leasehold and reversionary interests for property tax
19 purposes.⁹⁴

20 An exception to this would be a lease-purchase agreement. If the governmental entity held the
21 exclusive right to occupy and use the facility and the lease provided for automatic vesting of title
22 in the state at the expiration of the lease if all rental payments were made, the true owner of the
23 property may be the governmental entity, even though legal title resides in the lessor.⁹⁵ The
24 determination of beneficial ownership is a question of fact which depends upon the terms of each
25 agreement. If the county assessor concludes that the property is beneficially owned by the
26 governmental entity, the property is treated as government-owned for purposes of the
27 constitutional exemption extended by section 3 of article XIII.

28 **MINERAL PROPERTIES**

29 Transfers of mineral property leases or properties subject to such leases are not subject to the
30 provisions of section 61(c) which places the primary economic ownership in the lessee if the
31 term of the lease is 35 years or longer. Rather, section 61(a) governs the transfer of mineral
32 rights exclusively and states that a change in ownership includes:

⁹⁴ *City of Desert Hot Springs v. County of Riverside* (1979) 91 Cal.App.3d 441.

⁹⁵ *Mayhew Tech Center, Phase II v. County of Sacramento* (1992) 4 CalApp.4th 497.

1 The creation, renewal, sublease, assignment or other transfer of the right to
2 produce or extract oil, gas, or other minerals, regardless of the period during
3 which the right may be exercised....

4 Thus, regardless of the term of a mineral property lease, the creation or transfer of that lease is a
5 change in ownership. Ownership changes of mineral properties must be studied carefully in order
6 to determine the percentage of the property interest transferred or conveyed.⁹⁶

⁹⁶ See Assessors' Handbook Section 560, *Assessment of Mining Properties*.

CHAPTER 6: LEGAL ENTITIES

OVERVIEW

A *legal entity* is any business organization that is legally permitted to enter into a contract, including a contract for the purchase, sale, or lease of real property. Legal entity interests may be owned individually, owned by another legal entity, or held in trust. Some of the most common legal entities holding title to real property in California and discussed in this chapter include:

- Corporations
- Partnerships
- Limited liability companies
- Joint ventures
- Massachusetts business trusts
- Real estate investment trusts

In this handbook, the use of the term *entity* refers to any such legal entity, unless otherwise qualified. Another type of entity, a *cooperative housing corporation*, is discussed at the end of this chapter because, for change in ownership purposes, it is not treated as a legal entity.

OWNERSHIP OF LEGAL ENTITIES

CORPORATIONS

A *corporation* is an entity distinct from its owners, called shareholders or stockholders. The significant primary characteristics of a corporation are transferable shares of stock, a perpetual existence, and limited liability, including shareholder limited responsibility for corporate debt, shareholder insulation from judgments against the corporation, and shareholder amnesty from criminal actions of the corporation.⁹⁷

For Proposition 13 and change in ownership purposes, ownership in a corporation is determined by the percentage of ownership and control of a corporation's voting stock.

Nonprofit Corporations

In California, a nonprofit corporation is generally organized as either a nonprofit public benefit corporation⁹⁸ or a nonprofit mutual benefit corporation.⁹⁹ The same change in ownership laws that apply to legal entities also govern transfers to, from, or between nonprofit corporations except that nonprofit corporations do not have owners in the traditional sense. Members of

⁹⁷ The term *corporation* generally refers to corporations organized under and governed by Corporations Code sections 100-2319, or organized under and governed by similar statutes of other states. These corporations are sometimes referred to in this chapter as *business corporations* when distinguishing them from nonprofit corporations.

⁹⁸ Corporations Code sections 5110 et seq.

⁹⁹ Corporations Code sections 7110 et seq.

1 nonprofit corporations have no ownership interests in the corporation that are equivalent to the
 2 ownership of stock. Because there are no shareholders of nonprofit corporations, ownership is
 3 determined by the members who hold the voting rights. A member is any person or entity who,
 4 pursuant to the corporation's articles or bylaws, has the right to vote for the election of directors,
 5 the disposition of the assets, or on a merger or dissolution.

6 Any action of a nonprofit corporation without members requires only approval by the board of
 7 directors or trustees. In effect, this authority makes the board members the "owners" of the
 8 organization for change in ownership purposes.

9 A *nonprofit public benefit corporation* is a nonprofit, non-religious corporation organized
 10 primarily or exclusively for charitable purposes. For California nonprofit public benefit
 11 corporations, the persons considered to hold the voting rights of the corporation are usually the
 12 members of the board of directors.

13 A *nonprofit mutual benefit corporation* is a nonprofit corporation that is formed principally for
 14 the mutual benefit of its members or for the mutual benefit of all those engaging in a particular
 15 type of business or activity. Where there is no stock ownership, members of those corporations
 16 have possessory rights to the corporation's real property and are not limited to use of the
 17 corporation's real property for corporate purposes, the nature of the relationship for purposes of
 18 change in ownership is not that of a corporation and its shareholders, but rather, that of a tenancy
 19 in common in which each co-owner's property interest is terminable and transferable.

20 **PARTNERSHIPS**

21 A *partnership* is an unincorporated entity consisting of more than one individual, trust, or other
 22 entity. Under California law, a general partnership is defined as "an association of two or more
 23 persons to carry on as co-owners a business for profit."¹⁰⁰ The test to determine whether or not a
 24 partnership exists is based on the intention of the parties to carry on or conduct themselves as
 25 partners. A partnership agreement may be written or oral. A partnership may be deemed to own
 26 real property even if title to the property is held in the name of the partners as individuals, with
 27 or without reference to the partnership.¹⁰¹ A partnership agreement or a partnership income tax
 28 return may provide evidence to establish the existence of a partnership.

29 In a *general partnership*, all partners have unlimited legal responsibility for the debts and
 30 liabilities of the partnership.

31 A *limited partnership* is a business organization with one or more general partners who manage
 32 the business and assume legal debts and obligations, and one or more limited partners who do
 33 not participate in day-to-day operations and are liable only to the extent of their investments.

34 In a *family limited partnership*, a form of limited partnership, the parents are typically the
 35 general partners and the children hold limited partnership interests; they may or may not have

¹⁰⁰ Corporations Code section 16202(a).

¹⁰¹ Rule 462.180(e).

1 voting rights or capital and profits interests. Family limited partnerships are commonly used for
2 managing and transferring assets, including real and personal property, between generations.

3 For change in ownership purposes, general partnerships, limited partnerships, and family limited
4 partnerships are treated similarly. Thus, a partner's classification as a limited or general partner is
5 disregarded. An ownership interest in a partnership is represented by a partner's total interests in
6 the partnership capital and profits.¹⁰² The partnership agreement of some validly formed
7 partnerships may provide that certain partners have no right to share in partnership capital or
8 profits; in these instances, no partnership ownership interests are attributed to such partners for
9 change in ownership purposes. Thus, a partner's classification as a limited or general partner is
10 disregarded.

11 **LIMITED LIABILITY COMPANIES**

12 A *limited liability company* (LLC)¹⁰³ is a hybrid business entity having characteristics of both a
13 corporation and a partnership. The owners have limited liability for the actions and debts of the
14 company as well as increased flexibility in organization and management, compared to
15 corporations.

16 The owners of LLCs are referred to as members. For Proposition 13 and change in ownership
17 purposes, an ownership interest in an LLC is based on a member's total interest in the LLC
18 capital and profits.

19 A *single member limited liability company* is treated as a separate legal entity for property tax
20 purposes. Even though a single member LLC may be disregarded for federal tax reporting
21 purposes and its profits and losses reported on the individual member's tax return, its affairs are
22 governed by all of the formalities imposed on all other legal entities. Its articles of organization
23 and its operating agreement determine who the members are, the extent of the interests they own,
24 the activities it conducts, and the terms of its future dissolution. An LLC acquires its separate
25 existence as a legal entity once its articles of organization are filed and its operating agreement
26 executed. How its federal or state income taxes are reported on various returns has no bearing on
27 the legal recognition of a properly formed LLC (single member or otherwise).

28 **JOINT VENTURE**

29 A *joint venture* is an agreement between individuals or legal entities to work together on a
30 specific project for mutual benefit. A joint venture should be treated as a separate legal entity
31 similar to a partnership when it acts like a partnership and the co-owners share profits and losses
32 like a partnership. If this is not the case, the parties to the joint venture should be treated as
33 tenants-in-common.

34 A joint venture can be classified as a partnership for property tax purposes as long as the
35 minimum requirements of a partnership are evidenced: two or more persons who act as co-
36 owners of a business for profit. This means that certain indicia of ownership must exist, such as,

¹⁰² Rule 462.180(d)(1)(B).

¹⁰³ Beverly-Killea Limited Liability Company Act; Corp. Code sections 17000 et seq.

1 the contribution of capital to an enterprise, the rendition of services, the power of management or
 2 control of business, and agreement to share in business losses, in order to treat a joint venture as
 3 a partnership for property tax purposes. If one of these elements is missing, the parties to the
 4 joint venture should be treated as tenants-in-common.

5 In establishing whether a joint venture should be treated as a tenancy-in-common or as a
 6 partnership, the agreement is the controlling factor between the parties. The county assessor
 7 should consider the specific terms of their agreement and determine whether it supports the
 8 parties' contentions regarding their operational status (as a tenancy-in-common or a partnership).

9 **MASSACHUSETTS BUSINESS TRUSTS**

10 Generally, a trust is not considered an entity distinct from its present beneficial owners. (See
 11 Chapter 3 for a discussion of trusts.) Some trusts, commonly known as *Massachusetts business*
 12 *trusts*, are set up to operate as business organizations and issue transferable ownership
 13 certificates (similar to shares of stock in a corporation) that entitle the owners to share in the
 14 business income.

15 Rule 462.160(e) provides that the term *trust* does not include such Massachusetts business trusts
 16 or similar trusts, which are taxable as separate legal entities for property tax purposes.¹⁰⁴ The
 17 statutes and rules that address legal entities in general, section 64 and Rule 462.180, are
 18 applicable to such entities.

19 **REAL ESTATE INVESTMENT TRUSTS**

20 Real estate investment trusts, known as REITs, are pooled investment vehicles that invest in
 21 different types of real estate or real estate related assets, including shopping centers, office
 22 buildings, hotels, and mortgages secured by real estate¹⁰⁵ As with other corporations, REITs can
 23 be publicly or privately held. Public REITs may be listed on public stock exchanges like shares
 24 of common stock in other firms. Interests in REITs are considered ownership interests for
 25 purposes of the change in ownership as applicable to transactions involving legal entities.

26 **CHANGE IN OWNERSHIP**

27 In general, there are two types of transfers involving legal entities that may trigger a change in
 28 ownership of real property. The first type is a transfer of real property between an individual and
 29 an entity or between entities. The second type is a transfer of an interest in an entity.

30 **REAL PROPERTY TRANSFERS**

31 In general, a transfer of any interest in real property between a corporation, partnership, LLC, or
 32 other entity and a shareholder, partner, or any other person (including another entity) is a change

¹⁰⁴ For rules applicable to Massachusetts business trusts or similar trusts, see section 64 and Rule 462.180.

¹⁰⁵ U.S. Securities and Exchange Commission.

1 in ownership, unless the ownership interests are identical before and after the transfer (for more
2 details on this exclusion, see proportional ownership interest transfer exclusion below).¹⁰⁶

3 **TRANSFER OF INTEREST IN AN ENTITY**

4 Generally, purchases or transfers of corporate voting stock, partnership ownership interests, LLC
5 membership interests, or ownership interests in other legal entities are not changes in ownership
6 of the real property owned by the entity.¹⁰⁷ There are three exceptions to this general rule:

- 7 1. A transfer of an ownership interest in a legal entity that results in a *change in control* of
8 that entity is a change in ownership of the real property owned by the entity.¹⁰⁸
- 9 2. A transfer of an ownership interest in a legal entity by an *original co-owner* that results in
10 a cumulative transfer of more than 50 percent of all the interests held by original co-
11 owner having been transferred.¹⁰⁹
- 12 3. A transfer of shares in a *cooperative housing corporation* is a change in ownership, as
13 discussed at the end of this chapter.¹¹⁰

14 **Change in Control**

15 *Control* of an entity is ownership of more than 50 percent of the ownership interest in that entity,
16 in the case of corporations represented by ownership of voting stock and in the case of
17 partnerships or LLCs represented by ownership of the capital and profits interests. Control may
18 be obtained either directly or indirectly. A transfer of an interest in a legal entity that results in a
19 change in control of that entity is a change in ownership of the real property owned by the entity.

20 A person (an individual or other entity) obtains *direct control* of an entity when it acquires more
21 than 50 percent of the voting stock of a corporation, when it acquires a majority ownership
22 interest in any partnership or LLC capital and profits, or when it acquires more than 50 percent
23 of the total ownership interest in any other entity, in its own name.¹¹¹

24 **Example 6-1**

25 Z owns 60 percent of the voting stock of Corporation X. B acquires Z's 60 percent interest,
26 thereby obtaining direct control of Corporation X.

27 There is a change in ownership of all real property owned by Corporation X.

¹⁰⁶ Section 61(j), Rule 462.180(a).

¹⁰⁷ Section 64(a).

¹⁰⁸ Section 64(c)(1).

¹⁰⁹ Section 64(d).

¹¹⁰ Section 61(i).

¹¹¹ Rule 462.180(d)(1).

1 **Example 6-2**

2 Two brothers, M and B, created a partnership. Subsequently, the partnership purchased real
3 property. B owns 51 percent and M owns 49 percent of the partnership. The partnership had a
4 continuing clause so that the partnership did not terminate if either B or M died. Upon B's
5 death, his will gave 2 percent interest to M and 49 percent interest to his son D.

6 Because M obtained control of the partnership, there is a change in ownership of all real
7 property owned by the partnership upon B's date of death.

8 A person (an individual or other entity) may obtain *indirect control* of an entity by acquiring
9 direct control of another entity that, in turn, directly or indirectly controls such entity.¹¹²

10 **Example 6-3**

11 D owns 60 percent of the single class of voting stock of Corporation X. Corporation X, in
12 turn, owns 100 percent of the single class of voting stock of Corporation Y. B acquires D's 60
13 percent interest in Corporation X, thus obtaining direct control of Corporation X and indirect
14 control of Corporation Y.

15 There is a change in ownership of all real property held by Corporation X, which B now
16 directly controls, and Corporation Y, which B now indirectly controls through his ownership
17 of Corporation X's voting stock.

18 **Original Co-owner Interest Transfers**

19 If real property or legal entity interests are transferred to an entity in a proportional transfer
20 where the ownership interests are identical before and after so that the transfer is excluded under
21 section 62(a)(2) or Rule 462.180(d)(4), the persons holding the ownership interests in the
22 transferee entity immediately after the transfer are deemed *original co-owners* for purposes of
23 determining whether a change in ownership occurs upon subsequent transfers of the ownership
24 interests in the transferee legal entity.¹¹³ If an excluded transaction to a legal entity is made by a
25 trust, the present beneficiaries of the trust are considered the original co-owners.

26 A subsequent transfer of any original co-owner's interest in a legal entity is not a change in
27 ownership until cumulatively more than 50 percent of the total ownership interests in the entity
28 has been transferred in one or more transactions.¹¹⁴ Only the real property previously excluded
29 from change in ownership is reassessed as of the date cumulatively more than 50 percent of the
30 co-owners' interests have transferred. This does not apply to property acquired by the entity that
31 was reassessed upon acquisition.

32 If, however, cumulatively more than 50 percent ownership interests held by an original co-owner
33 has been transferred and, as a result of the transaction, a person or legal entity has also acquired

¹¹² Rule 462.180(d)(2).

¹¹³ Section 64(d). Original co-owner status is created only if the excluded transfer occurs on or after March 1, 1975.

¹¹⁴ Section 64(d).

1 control of the entity, *all* real property owned by the entity as of the date of change in control, has
2 undergone a change in ownership rather than just the property previously excluded.

3 Original co-owner status terminates when the property excluded from reassessment under section
4 62(a)(2) is reappraised or the property interest is transferred out of the entity, regardless of
5 whether an exclusion applies.

6 **Counting and Cumulation of Original Co-Owner Interests**

7 In general, most transfers of legal entity interests owned by original co-owners are *counted and*
8 *cumulated* for purposes of determining, under section 64(d), when cumulatively more than 50
9 percent of original co-owner interests have been transferred, including the following:¹¹⁵

- 10 • Transfers of original co-owner interests between parents and children.
- 11 • Transfers of original co-owner interests between grandparents and grandchildren.
- 12 • Transfers of original co-owner interests between original co-owners.
- 13 • Transfers of original co-owner interests held by a trust once the beneficiary of the trust
14 changes because the trust becomes irrevocable.

15 On the other hand, the following transfers are not counted or cumulated:¹¹⁶

- 16 • Interspousal transfers excluded under section 63.
- 17 • Registered domestic partner transfers excluded under section 62(p).
- 18 • Transfers into or out of qualifying trusts excluded under section 62(d) and
19 Rule 462.160(b).
- 20 • Proportional transfers excluded under section 62(a)(2), Rule 462.180(b)(2), and
21 Rule 462.180(d)(4).
- 22 • Successive transfers of the same original co-owner interest as long as proportional
23 interests remain the same after the transfer.

24 **Example 6-4**

25 K and B are equal tenants in common in Greenacre. K and B transfer Greenacre to
26 Corporation Y and in exchange K and B each receive 50 percent of Corporation Y's single
27 class of voting stock.

28 There is no change in ownership because the transfer is a proportional ownership interest
29 transfer.¹¹⁷ However, K and B become original co-owners.¹¹⁸ If K transfers 30 percent of
30 Corporation Y voting stock to C (K's child), and B thereafter transfers 25 percent of
31 Corporation Y voting stock to D (B's grandchild), there is a change in ownership of

¹¹⁵ Section 64(d).

¹¹⁶ Rule 462.180(d)(2).

¹¹⁷ Section 62(a)(2).

¹¹⁸ Section 64(d).

1 Greenacre as a result of B's transfer to D. The parent-child and grandparent-grandchild
 2 exclusions are not applicable to these transfers because they are transfers of stock and not
 3 transfers of real property interests. However, if the same transfers were made by K and B to
 4 their respective spouses, no change in ownership would occur.¹¹⁹

5 **Example 6-5**

6 A, B, and C are tenants in common in Greenacre. A and B each own a 20 percent undivided
 7 interest and C owns the other 60 percent. They transfer their interest in Greenacre to LP. In
 8 exchange, A and B each receive 20 percent of the capital and profits interests in LP and C
 9 receives the other 60 percent. The transfers are excluded from change in ownership and A, B,
 10 and C become original co-owners. If A, B and C then transfer their LP interests to LLC-A,
 11 LLC-B, and LLC-C, respectively, and each own 100 percent of the capital and profits
 12 interests of his own respective LLC, the transfers are excluded from change in ownership
 13 under Rule 462.180(d)(4). However, each becomes an original co-owner in his respective
 14 LLC.

15 If A transfers cumulatively more than 50 percent of the capital and profits interests of LLC-
 16 A, there is a change in ownership of 20 percent of Greenacre deemed indirectly owned by
 17 LLC-A through its 20 percent ownership of LP that was excluded from change in ownership.

18 Original co-owner status terminates once the property excluded from reassessment under
 19 section 62(a)(2) is reappraised or the property is transferred from the legal entity to an individual.

20 **MERGERS OF LEGAL ENTITIES**

21 The merging of two corporations or other entities results in a change in ownership of property
 22 owned by the merged (disappearing) corporation, unless an exclusion applies.

23 There is no change in ownership when a *statutory merger or conversion* occurs when the law of
 24 the jurisdiction of the converted or surviving entity provides that such entity remains the same
 25 entity or succeeds to the assets of the converting or disappearing entity without other act or
 26 transfer, and the owners of the converting or disappearing entity maintain the same ownership
 27 interest of the converted or surviving entity that they held in the converting or disappearing
 28 entity.

29 The California Corporations Code section 16909 provides that:

- 30 • An entity that converts into another entity is for all purposes the same entity that existed
 31 before the conversion.
- 32 • When a statutory conversion takes effect, all the rights and property, whether real,
 33 personal, or mixed, of the converting entity remains vested in the converted entity.

34 Thus, when two legal entities undergo such a statutory merger or conversion, the surviving entity
 35 takes title to all real property owned by the disappearing entity automatically by operation of

¹¹⁹ Rule 462.180(d)(2), Example 8.

1 law. As a consequence, there has been no transfer of real property between legal entities, and
 2 therefore, no change in ownership. The owners of the surviving entity are not original co-owners
 3 with respect to the property received from the disappearing entity, except to the extent to which
 4 they were original co-owners of the disappearing entity.¹²⁰

5 ***Example 6-6***

6 A limited partnership (LP), which owns Blackacre and in which K and B hold equal
 7 partnership interests, merges with a limited liability company (LLC), in which K and B hold
 8 equal membership interests, by statutory merger.¹²¹

9 There is no change in ownership of Blackacre upon the statutory merger because there is no
 10 transfer of property from LP to LLC.¹²² Section 62(a)(2) does not apply. However, if K and B
 11 were original co-owners in LP, they remain original co-owners in LLC.

12 **ACQUISITION BY MAJORITY PARTNER**

13 If a majority partner in a partnership (who owns more than 50 percent of the partnership
 14 ownership interests) acquires all of the remaining partnership ownership interests or otherwise
 15 becomes the sole partner (for example, upon the withdrawal from the partnership of all other
 16 partners), the transfer of the minority interests to the majority partner is not a change in
 17 ownership of the partnership's real property. This specific exclusion applies to transfers
 18 occurring on or after January 1, 1996.¹²³ The transfer of minority interests to a majority partner
 19 that occurred prior to this date resulted in a change in ownership.

20 ***Example 6-7***

21 Two brothers, T and J, created a partnership which purchased real property. T owns 60
 22 percent and J owns 40 percent of the partnership. Upon J's death, his will gave his 40 percent
 23 interest in the partnership to T.

24 Because T already had control of the partnership, there is no change in ownership upon T's
 25 acquisition of the minority interest. The subsequent transfer of the real property from the
 26 partnership to T is a proportional transfer because ownership interests are the same before
 27 and after the transfer.

28 **LEGAL ENTITY INTERESTS HELD BY TRUST**

29 The change in ownership laws governing interests in legal entities also apply to such interests
 30 when held by a trust.

¹²⁰ Rule 462.180(d)(4); Corporations Code sections 15611 et seq. (California Revised Limited Partnership Act); Corporations Code sections 16100 et seq. (Revised Uniform Partnership Act of 1994); and Corporations Code sections 17000 et seq. (Beverly-Killea Limited Liability Company Act).

¹²¹ Under the California Revised Limited Partnership Act (California Corporations Code section 15678.1 et seq.) and the Beverly-Killea Limited Liability Company Act (California Corporations Code section 17000 et seq.).

¹²² California Corporations Code section 17554.

¹²³ Section 64(c)(2).

1 Irrevocable Trusts

2 The transfer of an ownership interest in a legal entity holding an interest in real property into a
3 trust in which the trustor-transferor is the sole present beneficiary or to a trust in which the
4 trustor retains the reversion as defined in Rule 462.160(b)(1)(B) is excluded from change in
5 ownership. However, a change in ownership of real property held by the legal entity does occur
6 if any of the following sections apply, because the change in ownership laws governing interests
7 in legal entities also apply when such interests are held in trust:¹²⁴

- 8 • Section 61(j), non-proportional transfer.
- 9 • Section 64(c)(1), change in control.
- 10 • Section 64(d), transfer of more than 50 percent of original co-owner interests.

11 *Example 6-10*

12 The HW Partnership acquired real property (no original co-owners). Subsequently, H and W,
13 who are equal partners in HW Partnership, transfer 70 percent of their partnership interests to
14 HW Irrevocable Trust and name their four children as the present beneficiaries of the trust
15 with equal shares. Because the trust is irrevocable, under section 64(a) the transfer of the
16 partnership interests to the trust is excluded from change in ownership because no person or
17 entity obtains a majority ownership interest in the partnership.¹²⁵

18 However, assume the H and W transfer 70 percent of their partnership interests to the
19 irrevocable trust and only one daughter is the present beneficiary of the trust. Under section
20 64(c), the transfer of the partnership interest to the trust is considered a change in control of
21 the partnership because the daughter obtained a majority ownership interest in the
22 partnership. All the real property held by the partnership would undergo a change in
23 ownership. The parent-child exclusion is not applicable because the daughter obtained
24 partnership interests, not real property interests.

25 Revocable Trusts

26 The transfer by the trustor of real property, or an ownership interest in a legal entity holding an
27 interest in real property, to a trust that is revocable by the trustor is excluded from change in
28 ownership. However, a change in ownership will occur when the trust becomes irrevocable
29 unless the trustor-transferor remains or becomes the sole present beneficiary or unless otherwise
30 excluded from change in ownership (interspousal or registered domestic partner exclusion).¹²⁶

31 *Example 6-11*

32 Husband H and his wife W, who are original co-owners in a partnership, transfer 100 percent
33 of their partnership interests to a revocable trust. The transfer is not counted or cumulated
34 for purposes of section 64(d). Subsequently, H and W transfer a 60 percent partnership

¹²⁴ Rule 462.160(b)(1)(C).

¹²⁵ Rule 462.160, Example 4.

¹²⁶ Rule 462.160(c)(2).

1 interest to an irrevocable trust naming their son as the sole beneficiary. More than 50 percent
 2 of original co-owner interests have been transferred, and a change in control of the
 3 partnership occurred upon the transfer to the irrevocable trust when their son acquired the
 4 majority interest. Because of the change in control, there is a change in ownership of all
 5 partnership real property.

6 CHANGE IN OWNERSHIP EXCLUSIONS INVOLVING LEGAL ENTITIES

7 PROPORTIONAL OWNERSHIP INTEREST TRANSFER EXCLUSION

8 Any transfer of real property between an individual or individuals and an entity, or between legal
 9 entities, that results solely in a change in the method of holding title to the real property, and in
 10 which the proportional ownership interests of the transferors and transferees in each and every
 11 piece of real property transferred remain the same after the transfer, is excluded from a change in
 12 ownership.¹²⁷ This is known as the *proportional ownership interest transfer exclusion*.¹²⁸

13 *Example 6-12*

14 D and B, equal cotenants, transfer their real property to Corporation X and each take back
 15 50 percent of the single class of voting stock. No change in ownership occurs, since the
 16 proportional ownership interests remain the same before and after the transfer.

17 However, if D and B each take back 49 percent of the voting stock and C receives 2 percent
 18 of the voting stock, there will be a change in ownership of the entire property since the
 19 proportional ownership interests did not remain the same before and after the transfer.¹²⁹

20 *Example 6-13*

21 Corporation X owns Blackacre and Whiteacre (both are of equal value). D and B each own
 22 50 percent of the single class of voting stock of Corporation X. D and B are indirect owners
 23 of the real property owned by Corporation X. Corporation X transfers Whiteacre to D and
 24 Blackacre to B.

25 There is a change in ownership of 100 percent of both Blackacre and Whiteacre because the
 26 transfers are disproportionate. B owned 50 percent of Blackacre before the transfer and
 27 100 percent after the transfer. Similarly, D owned 50 percent of Whiteacre before the transfer
 28 and 100 percent after the transfer. Thus, both Blackacre and Whiteacre were reassessed.

29 However, if Corporation X transfers Whiteacre and Blackacre to both D and B as joint
 30 tenants or as equal tenants in common, there is no change in ownership because the transfers
 31 are proportional to their ownership of the corporations' voting stock.¹³⁰

¹²⁷ Section 62(a)(2). Reorganizations of affiliated corporations are governed by section 64(b).

¹²⁸ Section 62(a)(1).

¹²⁹ Rule 462.180(b)(2), Example 2.

¹³⁰ Rule 462.180(b)(2), Example 4.

1 In addition, transfers of stock, partnership or LLC interests, or any other interests in a legal
 2 entity, between legal entities or by an individual to a legal entity, or vice versa, which results
 3 solely in a change in the method of holding title and in which the proportional ownership
 4 interests of the transferors and transferees, in each and every piece of property represented by the
 5 interests transferred, remain the same after the transfer, do not constitute changes in
 6 ownership.¹³¹

7 ***Example 6-14***

8 A owns 60 percent and B owns 40 percent of the capital and profits interests in an LP and
 9 transfer those interests to a newly formed LLC in which A receives 60 percent and B receives
 10 40 percent of the LLC capital and profits interests. The transfers are excluded from change in
 11 ownership since the proportional ownership interests of A and B in the real property owned
 12 by LP remain the same before and after the transfer. However, if A received 59 percent, B
 13 received 39 percent, and C received two percent of the LLC capital and profits interests, a
 14 change in ownership results and all of the real property owned by the LP would be
 15 reassessed.

16 ***Example 6-15***

17 If in the example above only A transferred his LP interests to a newly formed LLC in
 18 exchange for 100 percent of the LLC capital and profits, the transfer would be excluded from
 19 change in ownership since the proportional ownership interests of A and B in the real
 20 property owned by LP remain the same after the transfer. The LLC would be a tenant in
 21 common with B.

22 **INTERSPOUSAL AND REGISTERED DOMESTIC PARTNER EXCLUSIONS**

23 A change in ownership does not include any transfer of legal entity interests solely between
 24 spouses¹³² or registered domestic partners.¹³³ Thus, if a spouse or registered domestic partner
 25 acquires control of an entity due to the transfer of entity ownership interests from his or her
 26 respective spouse or registered domestic partner, a change in control does not occur.¹³⁴ (See
 27 Chapter 11 for a discussion of interspousal and registered domestic partner exclusions.)

28 ***Example 6-16***

29 The single class of voting stock of Corporation X is owned 50 percent by H, 25 percent by
 30 his wife W, and 25 percent by his brother B. H acquires W's 25 percent interest, thereby
 31 acquiring 75 percent ownership of the Corporation X stock.

32 Even though H obtained more than 50 percent interest in Corporation X, the change in
 33 control is excluded from reassessment under the interspousal exclusion.

¹³¹ Rule 462.180(d)(4).

¹³² Section 63.

¹³³ Section 62(p).

¹³⁴ Rule 462.220(a), (b), and (c).

1 For purposes of change in ownership, a spouse's or registered domestic partner's ownership
2 interest in an entity is not attributable to the other party. Furthermore, when entity interests are
3 held as community property, each spouse or registered domestic partner owns one-half of the
4 community property interest. (See Chapter 11 for a discussion of community property.)

5 ***Example 6-17***

6 X owns a 48 percent interest in the capital and profits of an LLC as community property with
7 B, her registered domestic partner. B purchases a 10 percent membership interest in the
8 capital and profits of the LLC from C and this newly acquired 10 percent interest is also held
9 as community property. Together, X and B own 58 percent of the LLC membership interests
10 as community property.

11 Since the community property interests of X and B are considered for property tax purposes
12 as one-half owned by each of X and B, each are considered to own one-half of 58 percent (29
13 percent) of the LLC membership interests. Since neither has acquired more than 50 percent
14 of the LLC membership interests, there is no change in control of the LLC, and therefore no
15 change in ownership of property owned by the LLC.

16 A transfer of real property between a person and a legal entity that is wholly owned by that
17 person's spouse or registered domestic partner is not a transfer to a spouse or partner. Neither is it
18 a transfer of legal entity interests between spouses or partners. Such a transaction does not
19 qualify for either the interspousal and registered domestic partner exclusion. A legal entity, even
20 one wholly owned by a spouse or registered domestic partner, is not a spouse. Thus, a transfer to
21 a legal entity owned by a spouse or registered domestic partner is not the same as a transfer to
22 the spouse or registered domestic partner. If the ownership interests are not the same before and
23 after the transfer, the property will be subject to change in ownership.

24 ***Example 6-18***

25 A transfer of separately owned property from a husband to a partnership of which the
26 husband owns 95 percent and his wife owns 5 percent is not eligible for the interspousal
27 exclusion. Since the ownership interests are not the same before and after the transfer, the
28 property is subject to a 100 percent change in ownership.

29 ***Example 6-19***

30 A transfer from two registered domestic partners to a corporation, a legal entity, wholly
31 owned by one of the registered domestic partners is not eligible for the registered domestic
32 partnership exclusion.

1 **AFFILIATED GROUP EXCLUSIONS**

2 The following two types of reorganizations are not a change in ownership:

- 3 • A corporate reorganization where all of the corporations involved are members of an
- 4 affiliated group (and that qualifies as a reorganization under section 368 of the Internal
- 5 Revenue Code and is accepted as a nontaxable event by California statutes).
- 6 • Any transfer of real property or entity interests among members of an affiliated group.¹³⁵

7 *Affiliated group* means one or more chains of corporations connected through stock ownership

8 with a common parent corporation if both of the following conditions are met:

- 9 • The voting stock of the corporation making the transfer and the voting stock of the
- 10 transferee corporation are each owned 100 percent by a corporation related by voting
- 11 stock ownership to a common parent; and
- 12 • The common parent corporation directly owns 100 percent of the voting stock of at least
- 13 one corporation in the chain(s) of related corporations.¹³⁶

14 For the reorganization exclusion, the taxpayer must furnish proof that the transfer meets the

15 requirements of section 64(b). By its express language, this exclusion is limited to corporations

16 and therefore does not apply to other entities such as LLCs or partnerships.

17 If real property is transferred between corporations that are not part of the same affiliated

18 group,¹³⁷ only the property transferred undergoes a change in ownership.¹³⁸

19 **PARENT-CHILD AND GRANDPARENT-GRANDCHILD EXCLUSION**

20 The parent-child and grandparent-grandchild exclusions apply only to transfers of real property;

21 transfers of interests in legal entities that hold real property do not qualify.¹³⁹ Thus, if property is

22 held in a legal entity (for example, a family limited partnership), the property must first be

23 transferred by the legal entity to the individual partners prior to the parent-child or grandparent-

24 grandchild transfer in order to qualify for the exclusion. (See Chapter 7 for a discussion of the

25 applicability of the step transaction doctrine to such transfers. See Chapter 12 for a discussion of

26 the parent-child and grandparent-grandchild exclusions.)

27 **COOPERATIVE HOUSING CORPORATIONS**

28 A legal entity to which the legal entity change in ownership laws do not apply is a cooperative

29 housing corporation. A *cooperative housing corporation* is defined as "a real estate development

30 in which membership in the corporation, by stock ownership, is coupled with the exclusive right

¹³⁵ Section 64(b)(2); Rule 462.180(b)(1); Public Law 92-181; a reorganization of farm credit institutions pursuant to Federal Farm Credit Act of 1971 is not a change in ownership.

¹³⁶ Section 64(b)(1) and (b)(2).

¹³⁷ Section 64(d).

¹³⁸ Rule 462.180(a).

¹³⁹ Section 63.1(c)(8).

1 to possess a portion of the real property."¹⁴⁰ The transfer of shares in the corporation also
2 transfers the exclusive right of occupancy to the portion of the real property that corresponds to
3 those shares.

4 A cooperative housing corporation is formed primarily so multiple shareholders can collectively
5 own improved real property in which each shareholder has the right of exclusive occupancy to a
6 portion of the property. Examples include:

- 7 • A cooperative apartment building where share ownership confers the right to exclusively
8 occupy a particular apartment unit.
- 9 • A vacation home where share ownership gives the owner the right to exclusively occupy
10 a cabin along with pro rata ownership of the common areas.

11 For change in ownership purposes, ownership of shares in a cooperative housing corporation is
12 considered to be substantially equivalent to a fee interest in the real property. A transfer of a
13 stock share in a cooperative housing corporation results in a change in ownership, unless an
14 exclusion applies.¹⁴¹

15 Following a change in ownership, a new base year value is established equal to the fair market
16 value of the real property interest transferred, not the value of the stock.¹⁴²

¹⁴⁰ Section 61(i); Rule 462.180(d)(3).

¹⁴¹ Section 61(i), Rule 462.180(d)(3).

¹⁴² Section 61(i); see section 62(i) for an exclusion.

CHAPTER 7: STEP TRANSACTION DOCTRINE

The *step transaction doctrine* is a corollary of the general tax principle that the incidence of taxation depends upon the substance of a transaction rather than its form. Thus, the step transaction doctrine is applied when a series of transfers are used to transfer real property circumventing the change in ownership laws.¹⁴³ The general principle is that whether a transaction is a change in ownership depends upon the substance of a transaction rather than its form.¹⁴⁴ That is, the doctrine focuses on *what really occurred*, after all the steps in a transaction are completed, rather than what happened upon the completion of each step in a transaction.

When the step transaction doctrine applies, the substance of the transaction is viewed as a transfer from the owner(s) of the property prior to the first transfer to the resulting owner(s) after the last transfer. If the step transaction doctrine applies, and such theoretical direct transfer would have resulted in a change in ownership, a county assessor may collapse the steps, treating the entire series of steps as having occurred in one single direct step. As a result, the property would be subject to reassessment, unless an exclusion applies.

In *Shuwa Investments Corp. v. County of Los Angeles*,¹⁴⁵ the California Court of Appeal set forth three tests for determining the application of the step transaction doctrine for property tax purposes:¹⁴⁶

- *End result test.* Under the end result test, if it appears that a series of transfers were really component parts of a single transaction intended from the beginning to be taken for purposes of reaching the end result, the step transaction doctrine may apply and the intermediate steps may be disregarded.
- *Interdependence test.* Under the interdependence test, if the steps or transfers taken were so interdependent that the legal relations created by one transaction or transfer would have been fruitless (apart from the parties' intention to qualify for an exclusion) without completing the entire series of steps, then the step transaction doctrine may apply and the intermediate steps may be disregarded.
- *Binding commitment test.* Under the binding commitment test, if the structure of the transactions establishes that there is an agreement that once the first step or transfer is taken, the parties are obligated to complete the remainder of the steps, the step transaction doctrine may apply and the intermediate steps may be disregarded.

The determination as to whether the step transaction doctrine should be applied is based upon all of the surrounding facts, including, but not limited to, the timing of the transfers. The same set of

¹⁴³ *Shuwa Investments Corp. v. County of Los Angeles* (1991) 1 Cal.App.4th 1635, 1648-1649.

¹⁴⁴ *Shuwa, supra*, at p. 1648.

¹⁴⁵ (1991) 1 Cal.App.4th 1635.

¹⁴⁶ *Shuwa, supra.*, at pp. 1650-1653.

1 facts may meet the criteria for more than one of the three tests set forth above. However, only
2 one test needs to be satisfied for the step transaction doctrine to apply.¹⁴⁷

3 In addition, the existence of a business purpose for any of the transfers does not prevent the step
4 transaction doctrine from being applied in a particular situation; however, it may be a factor,
5 along with all other facts and circumstances, that should be considered when analyzing the entire
6 transaction to determine whether or not the step transaction doctrine should be applied.¹⁴⁸

7 *Example 7-1*

8 X and B are 50/50 partners in partnership PS that owns ten parcels of land. The ten parcels
9 are separate appraisal units.

10 Step 1: X and B dissolve PS and distribute all ten parcels to themselves as equal tenants
11 in common.

12 Step 2: X transfers his undivided cotenancy interest in parcels 1-5 to B, and B transfers
13 his undivided cotenancy interest in parcels 6-10 to X. X ends up with sole ownership of
14 parcels 6-10 and B ends up with sole ownership of parcels 1-5.

15 If each step were respected, Step 1 would be excluded as a proportional transfer.¹⁴⁹ Step 2
16 would result in a 50 percent reassessment of each parcel.

17 However, if only a single step were taken, such that upon dissolution of PS X received
18 parcels 6-10 in liquidation and B received parcels 1-5 in liquidation, a 100 percent change in
19 ownership of all ten parcels would occur because a disproportionate transfer between a legal
20 entity and an individual is a change in ownership of the entire interests transferred.¹⁵⁰

21 Thus, the series of steps and the surrounding circumstances should be examined to determine
22 whether each step should be respected for property tax purposes, or whether the two steps should
23 be considered component parts of the same transaction, the original intent, and ultimate result of
24 which were for each partner to acquire 100 percent ownership in five separate parcels.

25 Conversely, the doctrine does not allow a taxpayer to invent steps that never existed. A
26 transaction is to be given its tax effect in accord with what actually occurred and not in accord
27 with what might have occurred.¹⁵¹ Thus, a transfer from a parent to a family partnership whose
28 partners are the parent and the parent's adult children is a non-proportional transfer (ownership
29 interests are not the same before and after the transfer) and results in a change in ownership even
30 though the transfer would have been excluded had parents first transferred the property to their
31 children and then transferred the property to the family partnership.

¹⁴⁷ *McMillin-BCED/Miramar Ranch North v. County of San Diego* (1995) 31 Cal.App.4th 545, 556.

¹⁴⁸ *McMillin-BCED/Miramar Ranch North*, *supra*, at pp. 558-559.

¹⁴⁹ Section 62(a)(2).

¹⁵⁰ Section 61(j).

¹⁵¹ *Penner v. Santa Barbara* (1995) 37 Cal. App. 4th 1672.

1 APPLICATION TO PARENT-CHILD AND GRANDPARENT-GRANDCHILD EXCLUSIONS

2 The parent-child and grandparent-grandchild exclusions apply only to transfers of real property;
3 transfers of interests in legal entities that hold real property do not qualify.¹⁵² Thus, if property is
4 held in a legal entity (for example, a family limited partnership), the property must first be
5 transferred by the legal entity to the individual partners prior to the parent-child or grandparent-
6 grandchild transfer in order to qualify for the exclusion. In such circumstances, if all owners of
7 the legal entities are parents and children or grandparents and grandchildren of the same family,
8 and the transfer out of the legal entity is for the purpose of qualifying for the exclusion under
9 section 63.1, then the step transaction doctrine does not apply. (See Chapter 12 for a discussion
10 of the parent-child and grandparent-grandchild exclusions.)

¹⁵² Section 63.1(c)(8).

CHAPTER 8: COMMON INTEREST DEVELOPMENTS

In a *common interest development*, each owner is entitled to occupy a particular unit, and certain areas are owned in common by all owners or by a private owners' association. Common interest developments include planned developments, condominiums, community apartments, and stock cooperatives.¹⁵³

In community apartment projects,¹⁵⁴ planned developments,¹⁵⁵ and condominiums,¹⁵⁶ ownership of the real property is direct. In stock cooperatives and cooperative housing corporations, membership in the corporation (by ownership of stock or membership interests) is coupled with the exclusive right to possess a portion of the property.¹⁵⁷ For property tax purposes, a *cooperative housing corporation* is a common interest development in which membership in the corporation (by stock ownership) is coupled with the exclusive right to possess a portion of the real property. Other types of real property held in common interest form include shopping centers and industrial parks.

A *time-share* entitles the purchaser to use a specified or unspecified unit of real property for a specified period of time. A time-share purchase that includes a fee interest in real property is known as a *time-share estate*; other time-share interests are known as *time-share uses*.

REAPPRAISAL OF INTERESTS

When an interest in a portion of real property is purchased or changes ownership, only the interest or portion transferred is reappraised.¹⁵⁸ Where separate property interests, such as units or lots in common interest developments, are transferred along with interests in commonly owned areas, then only the unit or lot transferred and the share in the common area reserved as an appurtenance of such unit or lot is reappraised. Any increased taxes are imposed only on the owner of the reappraised unit.¹⁵⁹ An *appurtenance* is defined as:

That which belongs to something else; an adjunct; an appendage. Something annexed to another thing more worthy as principal, and which passes as incident to it, as a right of way or other easement to land....

A share of a common area is only reappraised on the sale of a separately owned interest when there is evidence that the common area or a share is an appurtenance reserved to the separately owned interest and is *substantially equal to the value of the fee*.¹⁶⁰

¹⁵³ Civil Code section 1351(c).

¹⁵⁴ Civil Code section 1351(d).

¹⁵⁵ Civil Code section 1351(k).

¹⁵⁶ Civil Code section 1351(f).

¹⁵⁷ Section 61(i).

¹⁵⁸ Section 65.1(a).

¹⁵⁹ Section 65.1(b).

¹⁶⁰ Section 60.

1 In common interest developments, owners of individual units and lots may be separately
2 assessed if a request is made. Separate assessments are governed by the following provisions:

- 3 • Planned developments—Section 2188.5
- 4 • Condominiums—Sections 2188.3 and 2188.6
- 5 • Community apartment projects or housing cooperatives—Section 2188.7
- 6 • Time-share estates and projects—Sections 2188.8 and 2188.9

7 Separate assessment of undivided areas is governed by section 2801, et seq.

8 **COOPERATIVE HOUSING CORPORATIONS**

9 The transfer of stock in a cooperative housing corporation is a change in ownership, unless the
10 corporation meets certain financing criteria and the stock is transferred to the corporation or
11 persons who qualify for housing cost assistance based on income. In order to qualify for this
12 exclusion, the transfer must meet all of the following conditions:¹⁶¹

- 13 • The cooperative was financed under a single mortgage, and that mortgage was insured
14 under, or the cooperative was purchased, financed, or assisted by funds from certain
15 National Housing Acts or was financed by a direct loan from the California Housing
16 Finance Agency;
- 17 • The applicable government insurer or lender approved the regulatory and occupancy
18 agreements; and
- 19 • The transfer is to a person or family that qualifies for the purchase by reason of limited
20 income.

21 **CONDOMINIUM CONVERSIONS**

22 Conversion of an apartment building, housing cooperative, or community apartment to
23 condominium ownership is not an automatic change in ownership. Once the conversion is
24 completed, however, and each unit is sold for the first time, the transfers from the former
25 owner(s) to the purchasers of the condominium units may be excluded from change in
26 ownership, depending on the circumstances. (See Chapter 13 for a discussion of partitions and
27 condominium conversions.)

28 ***Example 8-1***

29 The Mayflower is a 24-unit apartment complex, owned by co-owners as tenants in common.
30 Each co-owner possesses the exclusive right to occupy an identified apartment unit. The
31 apartment complex has been separately assessed since 1984. Now, the co-owners filed a
32 condominium plan with the county to convert the residential complex to condominiums.

¹⁶¹ Section 62(i).

1 The owners will record a subdivision map dividing the complex into condominium units and
 2 common areas. Deeds will be recorded granting each resident ownership of that resident's
 3 respective unit. The transfer of the individual units is not subject to change in ownership.¹⁶²

4 If the property is a typical apartment building and the renters purchase their units from the lessor,
 5 then whether there is a change in ownership is determined by the length of the lease term
 6 remaining at the time of purchase. The transfer of a lessor's interest in real property subject to a
 7 lease with a remaining term, including renewal options, of 35 years or longer is excluded from
 8 change in ownership. There is a change in ownership where the remaining term, including
 9 renewal options, is less than 35 years.¹⁶³

10 If the property is a stock cooperative, there is a change in ownership when the owner sells the
 11 stock representing individual units,¹⁶⁴ unless the property and the purchaser meet the exclusion
 12 criteria set forth in section 62(i).

13 If the project is a community apartment where each tenant owns an undivided interest in the
 14 entire project, there is no change in ownership if the proportional interests of the owners remain
 15 the same before and after the transfer.¹⁶⁵ This is usually accomplished when the persons purchase
 16 the units they occupy.

17 **TIME-SHARES**

18 A *time-share* entitles the purchaser to use a specified or unspecified unit of real property for a
 19 particular period of time. There are two categories of time-share interests: time-share estates and
 20 time-share uses.

21 *Time-share interest* is defined to mean and include either of the following:¹⁶⁶

22 (1) A "time-share estate," which is the right to occupy a time-share property,
 23 coupled with a freehold estate or an estate for years with a future interest in a
 24 time-share property or a specified portion thereof.

25 (2) A "time-share use," which is the right to occupy a time-share property, which
 26 right is neither coupled with a freehold interest, nor coupled with an estate for
 27 years with a future interest, in a time-share property.

28 Each time-share estate is, for property tax purposes, a separate estate or interest in real
 29 property.¹⁶⁷ The valuation of time-shares must be limited to the value of the real property

¹⁶² Section 62(a)(1).

¹⁶³ Section 61(c)(2).

¹⁶⁴ Section 61(i).

¹⁶⁵ Section 62(a).

¹⁶⁶ Business and Professions Code section 11212(x).

¹⁶⁷ Business and Professions Code section 11213.

1 interests, whether fee or leasehold, and exclude the value of any services, personal property, and
 2 other rights not related to real property.¹⁶⁸

3 **TIME-SHARE ESTATE**

4 A *time-share estate* consists of the right to use a time-share unit and an undivided fractional
 5 ownership of the underlying fee interest in the real property. The duration of the time-share
 6 interest may be into perpetuity, as in a fee simple co-ownership of a time-share unit, or it may be
 7 for a limited term, as in a life estate or an estate for years in a time-share unit. The time-share
 8 estate purchaser receives all the rights inherent in undivided co-ownership of real estate, such as
 9 the right to sell, lease, or bequeath his or her interest. Fee time-shares may be termed *undivided*
 10 *interest time-shares* or *interval ownership time-shares* (for example, a tenancy for years plus a
 11 vested remainder as tenant-in-common with other owners of a time-share unit).

12 Generally, transfer of a time-share estate is a change in ownership that requires the reappraisal of
 13 the interest transferred, unless another exclusion applies¹⁶⁹ (for example, the 5 percent/\$10,000,¹⁷⁰
 14 interspousal,¹⁷¹ or parent-child¹⁷² exclusions).

15 **TIME-SHARE USE**

16 Purchasers of *time-share uses* receive only those rights specifically granted to them by the
 17 developer of the time-share project, which usually means the right to occupy a unit and the
 18 related time-share premises. The duration of this right may range from 15 years or fewer to as
 19 long as 99 years; the time-share developer remains the fee owner of the real estate. Time-share
 20 uses may be referred to as *leasehold interest time-shares*, *vacation licenses*, *club memberships*,
 21 or *rights to use*.

22 If a contract gives exclusive possession of the premises as against all others, it is considered a
 23 lease.¹⁷³ As with other leases, the transfer of a time-share use having an original term, including
 24 renewal options, of 35 years or longer is usually a change in ownership that requires the
 25 reappraisal of the interest transferred.¹⁷⁴

¹⁶⁸ Section 998(a).

¹⁶⁹ Section 65.1(b).

¹⁷⁰ Section 65.1(a).

¹⁷¹ Section 63.

¹⁷² Section 63.1.

¹⁷³ *Cal-Am Corporation v. Department of Real Estate* (1980) 104 Cal.App.3d 453, 457.

¹⁷⁴ Section 61(c).

CHAPTER 9: MANUFACTURED HOMES AND MOBILEHOME PARKS

Homes subject to local property taxation under the Manufactured Home Property Tax Law¹⁷⁵ are referred to as manufactured homes. For property tax purposes, the term *manufactured home* includes a manufactured home as defined in Health and Safety Code section 18007 or a mobilehome as defined in Health and Safety Code section 18008.¹⁷⁶ The Manufactured Home Property Tax Law does not pertain to commercial coaches, factory-built housing, recreational vehicles, or park trailers. It also does not apply to manufactured homes that have been affixed to land on a permanent foundation system and are taxed as real property¹⁷⁷ or to manufactured homes that are subject to the vehicle license fee.¹⁷⁸

CHANGE IN OWNERSHIP OF MANUFACTURED HOMES

When a manufactured home that is subject to local property taxation experiences a change in ownership, the home is reassessed.¹⁷⁹ Most of the same change in ownership provisions apply to manufactured homes as to traditional structures.¹⁸⁰ Base year values are determined for manufactured homes on the dates they change ownership or upon completion of new construction.¹⁸¹ Additionally, base year values are annually adjusted by an inflationary rate that cannot exceed two percent. Annually, the value to be enrolled is (1) the lesser of the base year value compounded annually by an inflation factor that cannot exceed 2 percent or (2) the full cash value as of the lien date.

A manufactured home that is locally assessed may qualify as a principal place of residence for purposes of the parent-child or grandparent-grandchild exclusions¹⁸² and the over 55/disabled persons transfer of base year value exclusion.¹⁸³ (See Chapters 12 and 14, respectively, for a discussion of these exclusions.)

CHANGE IN OWNERSHIP OF MOBILEHOME PARKS

Certain transfers of mobilehome parks are excluded from change in ownership if the park is ultimately purchased by at least 51 percent of the tenants renting the individual spaces of the park.¹⁸⁴ Qualifying conversion to resident ownership under these exclusions permits the residents of the park to retain the base year value of the previous park owner, rather than causing a reassessment of the park to current market value. In some instances, prior to the transfer to the

¹⁷⁵ Section 5800 et seq.

¹⁷⁶ Section 5801(a).

¹⁷⁷ Section 5801(b)(1).

¹⁷⁸ See Assessors' Handbook Section 511, *Assessment of Manufactured Homes and Parks*.

¹⁷⁹ Section 5801(b)(1).

¹⁸⁰ Section 5814.

¹⁸¹ Section 5802.

¹⁸² Section 63.1.

¹⁸³ Section 69.5.

¹⁸⁴ Sections 62.1 and 62.2.

1 residents directly or to an entity owned by the residents, there is an interim transfer of the park to
 2 a non-resident-owned entity. This entity helps facilitate the purchase and conversion to a
 3 resident-owned park.

4 There are three change in ownership exclusions with respect to transfers of mobilehome parks:¹⁸⁵

- 5 1. Transfers to resident-owned entities
- 6 2. Transfers of rental spaces to the residents
- 7 3. Transfers to non-resident-owned entities

8 **TRANSFERS TO RESIDENT-OWNED ENTITIES**

9 Section 62.1(a)(1) excludes from change in ownership a transfer on or after January 1, 1985 of a
 10 manufactured home park to an entity formed by the tenants of the park. A transfer of a
 11 manufactured home park to an entity formed by the tenants of the park on or after January 1,
 12 1989 is excluded if the tenants who were renting at least 51 percent of the spaces in the park
 13 prior to the transfer participate in the transaction through the cumulative ownership of at least
 14 51 percent of the voting stock, or other ownership or membership interests, of the entity which
 15 acquires the park.

16 If, on or after January 1, 1998, a park is acquired by an entity that did not *initially* attain the
 17 required resident participation level of 51 percent, the exclusion is still available. In such
 18 instances, the entity has one year after the date of the transfer to attain the required 51 percent
 19 participation level. However, if the participation level of at least 51 percent is not attained within
 20 the one-year period, the county assessor is required to reappraise the park, as of the date of the
 21 transfer, and levy escape assessments following the transfer.

22 Additionally, during the one-year period, transfers of ownership interests from the resident-
 23 owned entity to the individual space owners are excluded from reassessment. However, any
 24 transfer of ownership interests from the resident-owned entity to individual space owners after
 25 the one-year period are not excluded from change in ownership, even if the transfer is to an
 26 individual who was renting a space in the park prior to the transfer of the park to the resident-
 27 owned entity. Such transfers are subject to a change in ownership of a pro rata portion of the real
 28 property of the park.

29 **TRANSFERS OF RENTAL SPACES TO THE RESIDENTS**

30 Section 62.1(a)(2) provides an exclusion from change in ownership for the transfer, on or after
 31 January 1, 1985, of rental spaces in a park to the residents of the rental spaces, provided that:

- 32 • At least 51 percent of the rental spaces are purchased by the individual tenants renting
 33 their spaces prior to purchase;
- 34 • The rental park has been in operation for five years or more; and

¹⁸⁵ Sections 62.1 and 62.2.

- The individual tenants of these spaces form, within one year after the first purchase of a rental space by an individual tenant, a resident organization¹⁸⁶ to operate and maintain the park.

In determining the required participation level for a park, section 62.1 requires that 51 percent of the rental spaces, or the tenants of 51 percent of the rental spaces, meaning *all of the rental spaces in the park*, must be purchased by the individual tenants renting their spaces prior to the purchase, or must participate as owners.

To qualify for this exclusion, it is not necessary that all of the transfers of rental spaces to the individual residents occur on the same day. The required 51 percent participation level may be accumulated, but must occur within the one-year period that the residents have to form the resident organization. However, even after the one-year period, as long as the 51 percent requirement has been met, the change in ownership exclusion applies to any purchase of a space by that group of tenants who were renting spaces in the park during this one-year period.

If all the conditions¹⁸⁷ are not satisfied, the county assessor is required to reappraise the properties, as of the date of the transfers, and levy escape assessments for the spaces that were transferred.

TRANSFERS TO NON-RESIDENT-OWNED ENTITIES

Section 62.2 allows an exclusion from change in ownership for certain transfers of a manufactured home park to an entity which is not formed by the residents (for example, nonprofit corporation, stock cooperative corporation, tenant-in-common ownership group, or a governmental entity). The exclusion is available for a temporary *transition* period to facilitate the ultimate transfer of the park to permanent resident ownership under one of the provisions of section 62.1.

For parks transferred between January 1, 1989 and January 1, 1993, the transition period was 18 months.¹⁸⁸ In general, for parks transferred after 1993, the transition period within which the section 62.2 requirements must be complied with is 36 months.¹⁸⁹

A transfer to either a resident-owned entity¹⁹⁰ or a transfer to at least 51 percent of the tenants¹⁹¹ must occur within the applicable transition period or the exclusion is relinquished. This means, at least 51 percent of the park rental spaces must be transferred to the individual tenants of those spaces, or the tenants of 51 percent of the spaces must participate as owners, within the specified time.

If the county assessor is notified in writing at the time the transferee files the change in ownership statement that the transferee intends to qualify under section 62.2, the park will not be

¹⁸⁶ Health and Safety Code section 50781(l).

¹⁸⁷ Section 62.1; Health and Safety Code section 50781.

¹⁸⁸ Section 62.2(a)(1).

¹⁸⁹ Section 62.2(a)(2).

¹⁹⁰ Section 62.1(a)(1).

¹⁹¹ Section 62.1(a)(2).

1 reappraised pending satisfaction of all relevant requirements. If all the requirements of section
 2 62.2 are not met, the county assessor is required to reappraise the park, as of the date of the
 3 transfer, and levy escape and supplemental assessments.

4 **CHANGE IN OWNERSHIP OF SPACES**

5 Generally, once a transfer of a manufactured home park has been excluded from change in
 6 ownership pursuant to one of the provisions of section 62.1, subsequent transfers of individual
 7 ownership interests are not excluded from change in ownership and are subject to reappraisal.
 8 With respect to transfers excluded by section 62.1(a)(2), since the individual residents then own
 9 their lots or spaces, subsequent transfers are treated as changes in ownership just as any other
 10 transfer of an interest in a planned unit development, condominium, or subdivision.

11 With respect to transfers excluded by section 62.1(a)(1), there is an exception to the general rule
 12 that transfers of interests in legal entities do not ordinarily constitute changes in ownership of the
 13 real property owned by the legal entity.¹⁹² Section 62.1(b)(1) provides:

14 If the transfer of a mobilehome park has been excluded from a change in
 15 ownership pursuant to paragraph (1) of subdivision (a) and the park has not been
 16 converted to condominium, stock cooperative ownership, or limited equity
 17 cooperative ownership, any transfer on or after January 1, 1989, of shares of the
 18 voting stock of, or other ownership or membership interests in, the entity which
 19 acquired the park in accordance with paragraph (1) of subdivision (a) shall be a
 20 change in ownership of a pro rata portion of the real property of the park unless
 21 the transfer is for the purpose of converting the park to condominium, stock
 22 cooperative ownership, or limited equity cooperative ownership or is excluded
 23 from change in ownership by Section 62, 63, or 63.1.

24 Commonly, a park is acquired by a nonprofit corporation formed by the former tenants.
 25 Subsequent purchasers of the manufactured homes also pay an established price for a share in the
 26 corporation, where each share gives its holder the right to occupy a specific space in the park. A
 27 share in the corporation usually may be transferred only in combination with the purchase of a
 28 manufactured home. The purchase price for a share may represent consideration for both the
 29 manufactured home and the fractional interest in the corporation.

30 **PRO RATA PORTION**

31 Once a park has been converted to a resident-owned entity, a subsequent transfer of ownership
 32 interest results in a change in ownership of the manufactured home and of a pro rata portion of
 33 the real property of the park. A *pro rata portion of the real property* is defined to mean the total
 34 real property of the park, multiplied by the fractional interest in the park that is conveyed by the
 35 transferred share of stock or other ownership interest.¹⁹³ In simplistic terms, if there are
 36 100 shares of outstanding stock, issued or unissued, a transfer of one share gives rise to a
 37 reassessment of a 1/100th interest of the real property of the park.

¹⁹² Section 64.

¹⁹³ Section 62.1(b)(2).

1 The Legislature intended that transfers of ownership interests in such parks be treated the same
 2 as transfers of other forms of "share" ownership (i.e., condominiums or stock cooperatives) and
 3 with stick-built homes. Thus, while each share in the corporation may be said to afford its holder
 4 the right, for example, to participate in the governance of the corporation and a management of
 5 the park, such rights are merely incidental to that which the share conveys to its holder in
 6 substance: (1) the outright ownership of a particular mobilehome, and (2) the exclusive right to
 7 occupy a particular space within the park.

8 As with any property type, location within a park can make a difference in the value of the space
 9 being transferred. If the purchase price was negotiated in the open market at arm's length, then
 10 the county assessor should enroll the entire amount in the combined assessments of the
 11 manufactured home and the underlying interest in the park. The most reasonable way of
 12 allocating the value between the two assessments would be to apply the land residual approach to
 13 extract from the purchase price the value of the manufactured home, using one of the recognized
 14 value guides,¹⁹⁴ and then assign the remainder of the purchase price to the interest in the park.
 15 The value of the manufactured home cannot include any value attributable to the particular site
 16 where the manufactured home is located. This method of allocation will ensure that the market
 17 value attributable to the location of the space being transferred is recognized and allocated to the
 18 interest in the park and not the manufactured home.

19 Any pro rata portion(s) of real property which changed ownership pursuant to section 62.1(b)
 20 may be separately assessed.¹⁹⁵ Initially, a written request must be made by the governing board of
 21 the park.¹⁹⁶ However, whenever a portion of the real property of a park becomes subject to
 22 separate assessment, it shall continue to be subject to separate assessment in subsequent fiscal
 23 years, and once a request for separate assessment is made, it is binding on all the future owners
 24 of the voting stock or other ownership or membership interests in the entity which owns the park.

25 **TRANSFERS OF MANUFACTURED HOME PARK SPACES IN ENTITIES FORMED PRIOR TO** 26 **1985**

27 Any transfer on or after January 1, 1989 of ownership interests in a park is a change in
 28 ownership of a pro rata portion of the real property of the park if the transfer of the mobilehome
 29 park has been excluded from a change in ownership pursuant to section 62.1(a)(1).¹⁹⁷
 30 Section 62.1(a)(1),¹⁹⁸ by its terms, applies only to transfers of parks on or after January 1, 1985.
 31 As such, only transfers of parks after that date qualify for the exclusion and trigger the pro rata
 32 change in ownership requirement.

33 Accordingly, for parks that transferred to entities prior to 1985, the provisions of section 62.1
 34 providing for pro rata changes in ownership do not apply. Since such an owner is by definition a

¹⁹⁴ Section 5803.

¹⁹⁵ Sections 62.1(b)(3) and 2188.10.

¹⁹⁶ Section 2188.10.

¹⁹⁷ Section 62.1(b)(1).

¹⁹⁸ Enacted January 1, 1985.

1 legal entity, the statutory provisions applicable to transfers of interests in legal entities¹⁹⁹
2 generally would govern.

3 With certain exceptions, the purchase or transfer of ownership interests in legal entities are not
4 deemed to constitute a transfer of the real property of the legal entity.²⁰⁰ Therefore, unless one of
5 the enumerated exceptions described in section 64(c) or (d) occurs (such as one person or entity
6 obtaining a majority interest in the park entity), the transfers of interests in the park entity would
7 ordinarily not constitute changes in ownership or precipitate reassessments of the real properties
8 of the entity.

9 However, there may be instances, analyzed on a case-by-case basis, where the transfer of an
10 ownership interest in such legal entity is accompanied by the transfer of a present interest in real
11 property, including the beneficial use thereof, the present value of which is substantially equal to
12 the value of the fee interest.²⁰¹ This could occur, for example, where there is transferred a specific
13 right to occupy a specific parcel of real property, coupled with the right to sell or otherwise
14 transfer that occupancy right. Such a transfer would meet the definition of change in ownership
15 set forth in section 60.

¹⁹⁹ Section 64.

²⁰⁰ Section 64(a).

²⁰¹ Section 60.

CHAPTER 10: MISCELLANEOUS ISSUES

This chapter presents a brief overview of less common change in ownership issues.

EMPLOYEE BENEFIT PLANS

Section 66 excludes from change in ownership the following:

(a) The creation, vesting, transfer, distribution or termination of a participant's or beneficiary's interest in an employee benefit plan.

(b) Any contribution of real property to an employee benefit plan.

(c) Any acquisition by an employee benefit plan of the stock of the employer corporation pursuant to which the employee benefit plan obtains direct or indirect ownership or control of more than 50 percent of the voting stock of the employer corporation.

Rule 462.240(d) further explains that a change in ownership does not include:

Any contribution of real property to an employee benefit plan, any acquisition by an employee benefit plan of the stock of the employer corporation pursuant to which the employee benefit plan obtains direct or indirect ownership or control of more than 50 percent of the voting stock in the employer corporation, or the creation, vesting, transfer, distribution, or termination of a participant's or beneficiary's interest in such a plan....²⁰²

The terms *employer*, *employee benefit plan*, *participant*, and *beneficiary* are as defined under federal law in the Employee Retirement Income Security Act of 1974.²⁰³

An *employee benefit plan* is an employee welfare benefit plan or an employee pension benefit plan or a plan which is both an employee welfare benefit plan and an employee pension benefit plan. Both types of plans require that such plan be established or maintained by an employer and/or by an employee organization.

Example 10-1

A corporation transferred real property that it owned into an employee retirement plan. The corporation was wholly owned by two individuals, each having a 50 percent interest in the corporation. The two shareholders were the only beneficiaries of the retirement plan and held equal interests in it. The transfer would be excluded from reappraisal.²⁰⁴

²⁰² The term "any contribution" as used in section 66(b) and this section means only those contributions of real property made to an employee benefit plan by an employer, a group of employees, or both, without any consideration.

²⁰³ Section 66.

²⁰⁴ Section 66.

1 The distribution of separate parcels of real property from an employee benefit plan to its
 2 participants is excluded from change in ownership as long as the value of the parcels or property
 3 interests distributed to each of the plan participants represents the present value of the interests
 4 each held in the benefit plan. Since there is no proportionality of ownership interest
 5 requirement,²⁰⁵ the same percentage or ownership interests in each and every piece of the
 6 property before and after distribution is not required.

7 Section 66(a) only requires that any such distribution from the benefit plan must constitute the
 8 participant's or beneficiary's interests in the benefit plan. Therefore, to be eligible for the
 9 exclusion, the benefit plan must distribute to a participant property or assets representing no
 10 more than the present value of that participant's interest in the plan. For example, if ten parcels
 11 distributed to X represent the present value of his interests in the benefit plan, and three parcels
 12 distributed to B represent the present value of his interests in the plan, then the transfers would
 13 qualify for the section 66 exclusion.

14 **INDIVIDUAL RETIREMENT ACCOUNTS**

15 Individual retirement accounts (IRAs) were designed by Congress to stimulate savings by
 16 employees not covered by qualified plans of their employers. IRAs are established and
 17 maintained by individual employees. Accordingly, an IRA is not an employee benefit plan for
 18 purposes of section 66. Commonly IRAs are trust or custodian accounts. For property tax
 19 purposes, a transfer to or from an IRA may be excluded from change in ownership if the
 20 ownership interests remain the same before and after the transfer.²⁰⁶ If employee is both the
 21 custodian or trustee and beneficiary of the IRA, a transfer of real property from the IRA to the
 22 employee would be excluded from change in ownership.

23 **FORECLOSURE**

24 *Foreclosure* is a procedure by which the beneficiary of a deed of trust or other promissory note
 25 elects to sell the property if the buyer defaults on the terms of the note. Common foreclosure
 26 actions include the following:

- 27 • A deed of trust may be foreclosed by the trustee's sale of the property.
- 28 • A mortgage or deed of trust may be foreclosed by judicial action.
- 29 • The trustor under a deed of trust (the property owner who is obligated on the loan) may
 30 transfer title to the property to the lender in lieu of the lender undertaking the foreclosure
 31 action.

32 The date of change of ownership depends on the specific circumstances of the foreclosure action.

- 33 • If a property is sold at a trustee's sale, a change in ownership occurs on the date the right
 34 of possession vests in a new purchaser²⁰⁷ who is a third party (including a lender or the

²⁰⁵ Section 66.

²⁰⁶ Rule 462.160(b)(5) and (d)(6).

²⁰⁷ Rule 462.120(b).

1 seller of a seller-financed property). However, if the purchaser at the trustee's sale is the
 2 foreclosed-upon owner, there is no change in ownership because beneficial ownership
 3 has not changed hands during the foreclosure process, even though legal title to the
 4 property may have changed.

- 5 • If the foreclosure involves a redemption period (most commonly, judicial foreclosure
 6 actions), the change in ownership occurs after the period of redemption has passed and
 7 the property has not been redeemed, or upon redemption when title vests in the original
 8 debtor's successor in interest.²⁰⁸
- 9 • If a property owner transfers title to the lender in lieu of a foreclosure action, the transfer
 10 is a change in ownership, and the date of the transfer is the date of change of
 11 ownership.²⁰⁹

12 AIR RIGHTS

13 Civil Code section 659 defines *land* as:

14 ...the material of the earth, whatever may be the ingredients of which it is
 15 composed, whether soil, rock, or other substance, and includes free or occupied
 16 space for an indefinite distance upwards as well as downwards, subject to
 17 limitations upon the use of airspace imposed, and rights in the use of airspace
 18 granted, by law.

19 *Air rights* are classified as land.²¹⁰ Accordingly, since air rights which are located above the land
 20 surface that establishes their legal description are part of land, and thus real property, they are
 21 subject to change in ownership provisions as all other real property. Similarly, transferable
 22 development rights are taxable real property interests which, when conveyed, result in a change
 23 in ownership requiring reappraisal of the development rights.²¹¹ In *Mitsui Fudosan v.*
 24 *Los Angeles County* the court concluded that transferable development rights (TDR) "are
 25 appropriately viewed as one of the fractional interests in the complex bundle of rights arising
 26 from the ownership of land"²¹² in view of the fact that the "donors" of the TDRs received
 27 valuable consideration and covenants restricting development of the donor parcels were
 28 recorded. Therefore, a transfer of TDRs was a change in ownership of the TDRs, resulting in
 29 their reappraisal, while the assessed value of the donor parcels should be reduced
 30 commensurately.

²⁰⁸ Section 62.11; Rule 462.120(a)(1) and (a)(2).

²⁰⁹ Rules 462.120(c) and 462.260(a)(1).

²¹⁰ Rule 124(b)(1).

²¹¹ *Mitsui Fudosan v. Los Angeles County* (1991) 219 Cal.App.3d 525.

²¹² *Mitsui Fudosan* at p.528.

ADVERSE POSSESSION

Adverse possession is a method of acquiring title to another's property without the true owner's consent.²¹³ To establish title by adverse possession, the occupying party must prove that it has satisfied each of the following requirements:²¹⁴

1. Possession was held either under a claim of right or color of title.
2. Actual open, notorious occupation of the premises in such a manner as to constitute reasonable notice to the recorded owner occurred.
3. Occupation was both exclusive and hostile to the title of the true owner.
4. Possession was uninterrupted and continued for at least five years.
5. All taxes levied against the property during such five-year period were paid by the occupying party.

A claimant to a property may have his/her name inserted with that of the recorded assessee.²¹⁵ To do so, the claimant must provide the county assessor with one of the following documents:²¹⁶

- A certified copy of a deed, judgment, or other instrument that creates or legally verifies the claimant's ownership interest in the property.
- A certified copy of a document creating the claimant's security interest in the property.
- The claimant's declaration, under penalty of perjury, that he or she currently has possession of the property and intends to be assessed for the property in order to perfect a claim of adverse possession.

For a change in ownership to occur, there must be a transfer of a present beneficial interest. The California courts have held that an adverse possessor may establish fee title by proving the five requirements mentioned above. In *Cannon v. Stockman*,²¹⁷ the California Supreme Court stated:

For when fee is once acquired by a five years' adverse possession it continues in the possessor till conveyed in the manner prescribed for the conveyance of titles acquired in other modes, or till lost by another adverse possession of five years. So, upon the same principle, if a fee has once vested by a five years' adverse possession, the mere fact that the party, who has thus acquired a title already perfect, afterward asserts title also under some other title subsequently acquired, would not defeat the good title already vested under the statute of limitations.

²¹³ Code of Civil Procedures sections 324 and 325.

²¹⁴ *Cannon v. Stockman* (1869) 36 Cal.535, 541.

²¹⁵ Section 610(a).

²¹⁶ Section 610(b).

²¹⁷ *Cannon v. Stockman* (1869) 36 Cal.535, 541.

1 Thus, the possessor acquires the fee title upon completion of the five-year period and
2 consequently a change in ownership occurs.

3 **TAXABLE POSSESSORY INTERESTS**

4 A *taxable possessory interest* is defined as an interest in real property that exists as a result of
5 possession, exclusive use, or a right to possession or exclusive use of land and/or improvements
6 unaccompanied by ownership of a fee simple or life estate in nontaxable, publicly owned real
7 property.²¹⁸ The possession must be:

- 8 • Independent—The use is independent when the private party's authority and control is
9 separate from the public owner, and use of the property or improvements by a private
10 party or parties is more than a mere agency.
- 11 • Durable—A possessory interest is durable when there is a reasonable certainty that the
12 use and enjoyment of the property will continue for a determinable period of time.
- 13 • Exclusive—Exclusive use of a property gives the private party the right to take legal
14 action against anyone who interferes with the enjoyment of the beneficial use conferred
15 by the agreement. This does not mean that there cannot be concurrent use of the property
16 by more than one possessory interest owner (for example, two persons who are making
17 qualitatively different uses of the same property each have an exclusive possessory
18 interest).

19 Thus, a taxable possessory interest exists when any person or entity has a durable, exclusive,
20 independent right to use tax-exempt, government-owned property for private benefit. A
21 possessory interest may be created by contract, lease, concession agreement, permit, license, or
22 simple occupation. Assesseees are liable for payment of any property tax levied against such
23 interests.²¹⁹

24 **CHANGE IN OWNERSHIP OF TAXABLE POSSESSORY INTERESTS**

25 The legal provisions that relate to a change in ownership of a taxable possessory interest are
26 contained in sections 61 and 62 and Property Tax Rule 462.080. The following table summarizes
27 the taxable possessory interest change in ownership provisions.

| CONSTITUTES A CHANGE IN OWNERSHIP | EXCLUDED FROM A CHANGE IN OWNERSHIP |
|---|---|
| The creation, renewal, extension, or assignment of a taxable possessory interest for any term, with the following exceptions. | A renewal or extension does not include the granting of an option to renew or extend an existing agreement pursuant to which the term of possession of the existing agreement would, upon the exercise of the option, be lengthened, whether the option is granted in the original agreement or subsequent thereto. [Section 61(b)(1); Rule 462.080(a)] |

²¹⁸ Section 107; Rule 20(a).

²¹⁹ See Assessors' Handbook Section 510, *Assessment of Taxable Possessory Interests*.

| CONSTITUTES A CHANGE IN OWNERSHIP | EXCLUDED FROM A CHANGE IN OWNERSHIP |
|---|---|
| | A renewal or extension during the reasonably anticipated term of possession used by the county assessor to establish the existing base year value of the interest does not constitute a change in ownership until the end of that reasonably anticipated term of possession. [Section 61(b)(2); Rule 462.080(b)(2)] |
| | The creation of an interest by reservation in an instrument that deeds the interest to a tax exempt government entity, regardless of whether the interest created is an estate for years or an estate for life. [Rule 462.080(b)(1)] |
| The sublease of a taxable possessory interest for a contract term (including any renewal options) that exceeds half the length of the remaining term (including any renewal options) of the master taxable possessory interest. [Section 61(d)(1)(A)] | The sublease of a taxable possessory interest for a term (including renewal options) that does not exceed half the length of the remaining contract term of the master taxable possessory interest (including renewal options). [Rule 462.080(b)(3)] |
| The termination of a sublease of a taxable possessory interest with an original contract term (including any renewal options) that exceeds half the length of the remaining contract term (including any renewal options) of the master taxable possessory interest when the sublease was entered into. [Section 61(d)(1)(B)] | The termination of a sublease of a taxable possessory interest with an original contract term (including renewal options) that did not exceed half the length of the remaining contract term of the master taxable possessory interest (including renewal options) when the sublease was entered into. [Rule 462.080(b)(4)] |
| The transfer of a sublessee's interest in a taxable possessory interest with a remaining contract term (including any renewal options) that exceeds half the remaining contract term of the master taxable possessory interest. [Section 61(d)(1)(C)] | The transfer of a sublessee's interest in a taxable possessory interest, with a remaining term (including any renewal options) that does not exceed half of the remaining contract term of the master taxable possessory interest. [Rule 462.080(b)(5)] |
| The transfer of a taxable possessory interest subject to a sublease with a remaining contract term (including any renewal options) that does not exceed half the contract term of the master taxable possessory interest. [Section 61(d)(2)] | The transfer of a taxable possessory interest subject to a sublease with a remaining contract term (including any renewal options) that exceeds half the length of the remaining contract term of the master taxable possessory interest (including any renewal options). [Section 62(o); Rule 462.080(b)(6)] |

1 SUBLEASES OF TAXABLE POSSESSORY INTERESTS

- 2 Most of the above provisions pertain to the change in ownership implications of a sublease of a
3 taxable possessory interest. The sublease provisions regarding taxable possessory interests are
4 similar to those contained elsewhere in statute that pertain to changes in ownership concerning

1 leasehold interests in privately owned real property. The guiding principle behind them is that a
2 change in ownership occurs when the primary economic interest in a property is transferred. In
3 the case of privately owned property held in fee simple, this is deemed to occur with the creation
4 of a leasehold interest of 35 years or longer. In the case of a taxable possessory interest, this is
5 deemed to occur with the creation of subleasehold interest in the taxable possessory interest that
6 is greater than half the remaining term of the taxable possessory interest itself.²²⁰

7 For example, for privately owned real property held in fee, a change in ownership occurs when a
8 lease of 35 years or longer is created; but a change in ownership does not occur when there is a
9 transfer of an underlying fee interest that is subject to a leasehold interest with a remaining term
10 of 35 years or longer. In the first case, the primary economic interest in the property transfers; in
11 the second, it does not.

12 Similarly, a change in ownership occurs when a sublease of a taxable possessory interest is
13 created that has a contract term that is greater than half the remaining term of the taxable
14 possessory interest; but a change in ownership does not occur when there is a transfer of the
15 taxable possessory interest subject to a subleasehold interest with a remaining term greater than
16 half the remaining term of the taxable possessory interest.

17 When a change in ownership of a taxable possessory interest occurs because of a sublease
18 transaction, and the sublease involves a portion rather than all of the taxable possessory interest,
19 only the subleased portion of the taxable possessory interest changes ownership, not the entire
20 taxable possessory interest. That is, only a portion of the existing taxable possessory interest
21 should receive a new base year value. In this case, establishing the new assessed value of the
22 subject taxable possessory interest involves removing the portion of its base year value that
23 corresponds to the newly subleased portion and adding the value of the newly subleased portion
24 that results from the change in ownership.

²²⁰ Section 61(d)(1).

1 **CHAPTER 11: INTERSPOUSAL AND REGISTERED DOMESTIC** 2 **PARTNER EXCLUSIONS**

3 Transfers of real property or legal entity interests between spouses or registered domestic
 4 partners are excluded from change in ownership pursuant to section 63 for married persons
 5 and section 62(p) for registered domestic partners. No exclusion claim form is required to be
 6 filed.

7 **ELIGIBLE RELATIONSHIPS**

8 **MARRIAGES**²²¹

9 The interspousal exclusion only applies to purchases or transfers between persons who have
 10 entered into a marital relationship recognized under California law, which for marriages
 11 entered into in California, requires the issuance of a license and solemnization. For a
 12 marriage of persons of the opposite sex, California will recognize an out-of-state marriage,
 13 including a common law marriage, as long as the marriage was valid in the jurisdiction in
 14 which it was contracted.²²² A common law marriage cannot be established in California, but a
 15 common law marriage validly entered into in another jurisdiction will be recognized as valid
 16 in California.

17 For marriages of persons of the same sex, marriages entered into in California after 5:00 p.m.
 18 on June 16, 2008 and before November 5, 2008 are recognized as valid on an ongoing
 19 basis.²²³ However, no same-sex marriages entered into in California before or after this time
 20 period are valid or recognized.²²⁴ Regarding same-sex marriages validly entered into outside
 21 of California, these marriages were not barred from being recognized in California during
 22 this time period.²²⁵ To date, there is no clear legal guidance regarding the recognition of out-
 23 of-state same-sex marriages on or after November 5, 2008.²²⁶

24 As used in this handbook, *marriage* refers to any relationship recognized as such under
 25 California law, regardless of where it was entered. Similarly, *married individuals*, *married*
 26 *persons*, and *spouses* refer to the persons who entered into a marriage, as that term is used in
 27 this handbook.

28 **REGISTERED DOMESTIC PARTNERSHIPS**

29 The registered domestic partner exclusion only applies to purchases or transfers between
 30 persons who are registered domestic partners with the California Secretary of State.²²⁷

²²¹ This draft does not reflect any changes made by the *Marriages* court case or Proposition 8 on the November 4, 2008 ballot.

²²² Family Code section 308.

²²³ *Strauss v. Horton*, 2009 Cal. LEXIS 4626, p. 253.

²²⁴ *In re Marriage Cases* (2008) 43 Cal. 4th 757, 857 (before June 16, 2009 at 5:00 p.m.); *Strauss v. Horton*, 2009 Cal LEXIS 4626, p. 254 (after November 5, 2009)

²²⁵ *In re Marriage Cases* (2008) 43 Cal.4th 757, 857,

²²⁶ *Strauss v. Horton*, 2009 Cal. LEXIS 4626, pp. 253-254. Legislation is currently pending (SB 54).

²²⁷ Section 62(p)(1).

1 Persons who are registered with local governments or other jurisdictions will not qualify for
2 this exclusion.

3 In California, two persons may enter into a registered domestic partnership when both
4 persons file a Declaration of Domestic Partnership²²⁸ with the California Secretary of State.
5 To enter into a registered domestic partnership, the persons must meet the following criteria:

- 6 1. Both share a common residence, regardless of how title or the right to possession to
7 the residence is held.
- 8 2. Neither is married to another person or is a member of another registered domestic
9 partnership that has not been terminated, dissolved, or annulled.
- 10 3. The two are not related by blood in a way that would prevent them from being
11 married to each other.
- 12 4. Both are over the age of 18 and capable of consenting to the partnership.
- 13 5. Either of the following:
 - 14 • Both are the same sex; or
 - 15 • Both are the opposite sex and at least one of them is over the age of 62 and meets
16 the federal requirements for either old age insurance benefits or for aged
17 individuals.

18 Due to this filing requirement, the establishment of a registered domestic partnership can be
19 verified with the Secretary of State. The date of registration of the partnership with the
20 Secretary of State is treated as the date of the commencement of the partnership for issues
21 relating to property ownership, community property rights, and obligations resulting from the
22 dissolution of the partnership.²²⁹

23 For various reasons, it is common for an unmarried couple to register their relationship with a
24 city, county, or employer in California; however, unless the couple is registered with the
25 California Secretary of State as domestic partners, they are not considered registered
26 domestic partners for property tax purposes.²³⁰

27 **COMMUNITY AND SEPARATE PROPERTY**

28 Married individuals and registered domestic partners may take title to real property together
29 as joint tenants, tenants in common, community property, or community property with right
30 of survivorship. Married individuals and registered domestic partners may also take title to

²²⁸ Form NP/SF DP-1.

²²⁹ Family Code section 297.5(k)(1).

²³⁰ Section 62(p).

1 property as separate property in their own names as the sole owner. (See Chapter 2 for a
2 discussion of forms of property ownership.)

3 **COMMUNITY PROPERTY**

4 *Community property* is property owned by a husband and wife or by registered domestic
5 partners, with each person having an undivided one-half interest in the property by reason of
6 their marital or domestic partnership status.²³¹ Only married persons and registered domestic
7 partners may own community property interests in real property, or take title to property as
8 community property. Each member of the community is presumed to own one-half of all
9 community property. The general rule is that all property acquired during marriage or during
10 a registered domestic partnership is presumed to be community property if community assets
11 were used to purchase or construct improvements on it, regardless of the manner in which
12 title to the property is held, unless specific conditions are met or the parties otherwise agree.
13 The community property rule includes both real property and legal entity interests such as
14 voting shares in a corporation or membership interests in a limited liability company (LLC).

15 ***Example 11-1***

16 H and W are married and jointly own a parcel of land. If the land is held as community
17 property, for property tax purposes, H and W are considered to each own a 50 percent
18 interest.

19 For all registered domestic partners, even those who were registered with the state prior to
20 January 1, 2005, community property interests are determined by including property interests
21 acquired from the date of registration with the Secretary of State, even though the law did not
22 provide for the extension of community property rights until January 1, 2005.

23 Community property interests do not automatically pass to the surviving spouse or registered
24 domestic partner upon death. Rather, that person's community property interest will pass to
25 whomever that person so designates in his or her estate planning document. *Community*
26 *property with right of survivorship* is a form of community property whereby upon the death
27 of one spouse or registered domestic partner it passes automatically by operation of law to
28 the other party without probate, as in a joint tenancy.

29 **SEPARATE PROPERTY**

30 Any property owned by a married person or a registered domestic partner that is not
31 considered to be community property is separate property. *Separate property* of a married
32 person or a registered domestic partner includes all property owned by that person before
33 marrying or entering into a registered domestic partnership, acquired during the marriage or
34 registered domestic partnership by gift or inheritance, and any rents, profits, or other
35 proceeds of such property.²³²

²³¹ Family Code sections 297.5(k) and 760.

²³² Family Code section 770(a).

1 **NO ATTRIBUTION BETWEEN MEMBERS OF THE COMMUNITY**

2 When property is held as community property, each person is treated as owning 50 percent of
3 the property or the legal entity interests. The marriage or registered domestic partnership is
4 not considered the owner of community assets as a single unit or owner. Thus, for property
5 tax purposes, there is no attribution of ownership from one spouse or registered domestic
6 partner to the other.

7 *Example 11-2*

8 One married couple owns a 50 percent membership interest in an LLC, and the other
9 50 percent membership interest is owned by registered domestic partners. Each couple's
10 interest is community property. For property tax purposes, each spouse is considered to
11 be the owner of a separate 25 percent membership interest in the LLC. Likewise, each
12 registered domestic partner is considered to be the owner of a separate 25 percent
13 membership interest in the LLC.

14 The spouse or registered domestic partner is not considered to own the additional
15 25 percent owned by his spouse or registered domestic partner by virtue of their
16 relationship.

17 **INTERSPOUSAL EXCLUSION**

18 Article XIII A, section 2, subdivision (g) of the California Constitution provides that a
19 change in ownership does not include the purchase or transfer of real property between
20 spouses since March 1, 1975. This constitutional provision is codified in section 63, which
21 provides examples of transfers between spouses that do not constitute a change in ownership.
22 The specified examples are:

23 (a) Transfers to a trustee for the beneficial use of a spouse, or the surviving
24 spouse of a deceased transferor, or by a trustee of such a trust to the spouse of
25 the trustor.²³³

26 (b) Transfers to a spouse that take effect upon the death of a spouse.

27 (c) Transfers to a spouse or former spouse in connection with a property
28 settlement agreement or decree of dissolution of a marriage or legal
29 separation.

30 (d) The creation, transfer, or termination, solely between spouses, of any
31 co-owner's interest.

32 (e) The distribution of a legal entity's property to a spouse or former spouse in
33 exchange for the interest of such spouse in the legal entity in connection with

²³³ See also section 62(d).

1 a property settlement agreement or a decree of dissolution of a marriage or
2 legal separation.²³⁴

3 Rule 462.220 expands on these examples and additionally provides that interspousal transfers
4 of legal entity interests do not result in a change in ownership of real property owned by the
5 legal entity.²³⁵

6 Thus, all voluntary transfers made between spouses during marriage, involuntary transfers
7 taking effect upon the death of a spouse, or transfers related to a marital separation or
8 dissolution, do not result in changes in ownership.

9 REGISTERED DOMESTIC PARTNER EXCLUSION

10 Effective January 1, 2006, registered domestic partners receive the same exclusions from
11 change in ownership and reassessment for transfers between registered domestic partners that
12 spouses receive under the interspousal exclusion.²³⁶ Specifically, section 62(p)(1) provides
13 that the following are excluded from change in ownership:

- 14 • Transfers to a trustee for the beneficial use of a registered domestic partner, or the
15 surviving registered domestic partner of a deceased transferor, or by a trustee of such
16 a trust to the registered domestic partner of the trustor.²³⁷
- 17 • Transfers that take effect upon the death of a registered domestic partner.
- 18 • Transfers to a registered domestic partner or former registered domestic partner in
19 connection with a property settlement agreement or decree of dissolution of a
20 registered domestic partnership or legal separation.
- 21 • The creation, transfer, or termination, solely between registered domestic partners, of
22 any co-owner's interest.
- 23 • The distribution of a legal entity's property to a registered domestic partner or former
24 registered domestic partner in exchange for the interest of the registered domestic
25 partner in such entity, in connection with a property settlement agreement or a decree
26 of dissolution of a registered domestic partnership or legal separation.²³⁸

27 If there has been a reassessment for a transfer between registered domestic partners that
28 occurred between January 1, 2000 and January 1, 2006 that resulted in a change in
29 ownership, retrospective relief is available. This means that a reassessment that occurred
30 between these dates may be reversed on a prospective basis beginning with the lien date of
31 the assessment year²³⁹ in which a claim is filed with the county assessor where the

²³⁴ Section 63(a)-(e).

²³⁵ Rule 462.220(a), (b) and (c).

²³⁶ Section 62(p).

²³⁷ See also section 62(d).

²³⁸ Section 62(p)(1)(A) through (1)(E).

²³⁹ Section 118; the period beginning with a lien date and ending immediately prior to the succeeding lien date.

1 transferred property is located.²⁴⁰ However, claims for such relief must be made to the county
2 assessor on or before June 30, 2009.

3 While section 62(p) creates an exclusion for registered domestic partners of identical scope
4 to the interspousal exclusion, it does not make registered domestic partners spouses under
5 California law. The interspousal exclusion provides that the terms *purchase* and *change in*
6 *ownership* do not include the purchase or transfer of real property between spouses.²⁴¹ Since
7 the term *spouse* within the meaning of the California Constitution does not include a
8 registered domestic partner, a transfer of real property between registered domestic partners
9 will not qualify for the interspousal exclusion under section 63.

10 **TRANSFERS UPON DEATH**

11 For spouses, transfers of real property or legal entity interests that take effect upon the death
12 of a spouse are excluded from the definition of change in ownership.²⁴² Such transfers
13 include transfers by will, intestate succession, and trust.

14 For registered domestic partners, transfers of real property or legal entity interests that take
15 effect upon the death of a registered partner are excluded from the definition of change in
16 ownership if the date of death occurs on or after January 1, 2006.²⁴³ This exclusion is applied
17 to all transfers resulting from the death of a registered domestic partner, including transfers
18 by will, intestate succession, or trust. Additionally, the inheritance of property via intestate
19 succession from one's registered domestic partner is excluded from change in ownership if
20 the date of death occurred on or after November 13, 2003.²⁴⁴

21 **TRANSFERS INVOLVING LEGAL ENTITIES**

22 Transfers of legal entity interests and transfers of property between individuals and legal
23 entities are different transactions and, thus, are treated differently by the interspousal and
24 registered domestic partner exclusions. These two exclusions apply to one type of
25 transaction, but not the other.

26 **TRANSFER OF INTERESTS IN A LEGAL ENTITY**

27 The interspousal and registered domestic partner exclusions apply to transfers of legal entity
28 interests.²⁴⁵ Thus, where a legal entity owns real property in California, if the interspousal or
29 registered domestic partner exclusion applies to the transfer of the legal entity interest, real
30 property owned by such entity will not undergo a change in ownership as a result of the
31 transfer.

²⁴⁰ Section 62(p)(2).

²⁴¹ California Constitution, article XIII A, section 2(g).

²⁴² Section 63(b).

²⁴³ Section 62(p)(1)(B).

²⁴⁴ Rule 462.240(k).

²⁴⁵ Rule 462.220(a).

1 Transfers of legal entity ownership interests that result in one spouse or registered domestic
 2 partner obtaining control²⁴⁶ do not result in a change in ownership.²⁴⁷ The interspousal and
 3 partner-to-partner transfers are not counted or cumulated for determining whether a transfer
 4 of more than 50 percent of original co-owner interests under section 64(d) has occurred.

5 ***Example 11-3***

6 Spouses H and W each owns a 30 percent ownership interest in a partnership. W transfers
 7 her interest to H; H now owns a 60 percent ownership interest.

8 There is no change in ownership even though H has obtained control of the partnership.²⁴⁸

9 In addition, between spouses or registered domestic partners, transfers of legal entity
 10 ownership interests by original co-owners which would otherwise be cumulated or counted
 11 for purposes of section 64(d) do not cause a change in ownership.²⁴⁹ (See Chapter 6 for a
 12 discussion regarding cumulated or counted interests.)

13 ***Example 11-4***

14 Registered domestic partners V and W are original co-owners of a partnership; each own
 15 a 50 percent partnership interest. In 2008 they each transfer a 20 percent interest to X and
 16 to B, leaving V and W each with a 30 percent partnership interest. W thereafter transfers
 17 a 15 percent interest to V. Although cumulatively more than 50 percent of the original
 18 co-owner interests have actually been transferred, there is no change in ownership
 19 because only 40 percent are counted and cumulated.

20 **TRANSFER OF REAL PROPERTY**

21 A transfer of real property between a person and a legal entity that is wholly owned by that
 22 person's spouse or registered domestic partner is not a transfer to a spouse or partner. Neither
 23 is it a transfer of legal entity interests between spouses or partners. Such a transaction does
 24 not qualify for either the interspousal or registered domestic partner exclusion. A legal entity,
 25 even one wholly owned by a spouse or registered domestic partner, is not a spouse. Thus, a
 26 transfer to a legal entity owned by a spouse or registered domestic partner is not the same as
 27 a transfer to the spouse or registered domestic partner. If the ownership interests are not the
 28 same before and after the transfer, the property will be subject to change in ownership.

29 ***Example 11-5***

30 A transfer of separately owned property from a husband to a partnership of which the
 31 husband owns 95 percent and his wife owns 5 percent is not eligible for the interspousal
 32 exclusion. Since the ownership interests are not the same before and after the transfer, the
 33 property is subject to a 100 percent change in ownership.

²⁴⁶ Section 64(c)(1).

²⁴⁷ Rule 462.220(b).

²⁴⁸ Rule 462.220(b), Example 1.

²⁴⁹ Rule 462.220(c).

1 ***Example 11-6***

2 A transfer from two registered domestic partners to a corporation, wholly owned by one of the
3 registered domestic partners is not eligible for the registered domestic partnership exclusion.

4 **PROPERTY SETTLEMENT AND POST-SETTLEMENT AGREEMENT TRANSFERS**

5 Transfers of real property or legal entity interests pursuant to legal separation or a decree of
6 dissolution of a marriage or a registered domestic partnership are excluded from change in
7 ownership if the transfer is made to the other party in connection with a property settlement
8 agreement or decree of dissolution or a legal separation.²⁵⁰ Only transfers between the
9 spouses or registered domestic partners that occur before the property rights are finally
10 settled are excluded under these provisions.

11 Any transfers made in connection with a property settlement agreement, including post-
12 dissolution transfers which are based on the terms of the settlement agreement, and post-
13 dissolution transfers resulting from finalizing the former spouses' or registered domestic
14 partners' property rights under the settlement agreement or decree of dissolution, are
15 excluded from reappraisal because they are directly related to the terms of the settlement
16 agreement or decree of dissolution.²⁵¹

17 If, however, the parties intended to permanently settle their property rights and a decree of
18 dissolution has become final, then any subsequent transfers are considered to be between
19 unmarried or unregistered parties and are therefore not eligible for interspousal or registered
20 domestic partner exclusions.²⁵²

21 ***Example 11-7***

22 Upon divorce, H and W entered into a property settlement agreement which provided for
23 W to transfer her interest in all real properties owned by the community to H in exchange
24 for the H's payment of \$1 million. Two years after the divorce is finalized, H and W
25 agree to transfer the title to one of H's properties to W in lieu of paying W the \$1 million.

26 Since a transfer in lieu of payment was not part of the settlement agreement, the transfer
27 of the property results in a change in ownership as a transfer between co-owners.

28 ***Example 11-8***

29 Upon divorce, H and W entered into a property settlement agreement which provided for
30 H and W to co-own the property with W having the right to live in the property until their
31 last child reaches age 18. If the agreement allows either H or W to buy the other's
32 interest, then no change in ownership will occur if either H or W exercises that option.

²⁵⁰ Sections 63(c) and (e) and 62(p)(1)(C) and (E).

²⁵¹ Section 63(c).

²⁵² Section 63(c) and (e); Section 62(p)(1)(C).

1 However, if the agreement does not specify that one is entitled to buy the other's interest,
2 the transfer will be a reassessment of 50 percent interest if a former spouse buys out the
3 other's interest.

CHAPTER 12: PARENT-CHILD AND GRANDPARENT-GRANDCHILD EXCLUSIONS

OVERVIEW

On November 4, 1986, the voters approved Proposition 58, which, in part, added subdivision (h) to section 2 of article XIII A of the California Constitution. Subdivision (h) provides that the terms *purchased* and *change in ownership* exclude the purchase or transfer of:

1. A principal residence between parents and their children; and
2. The first \$1 million of the full cash value of all real property other than a principal residence between parents and children.

Section 63.1 was added to the Revenue and Taxation Code to implement the parent-child exclusion provisions of Proposition 58. The parent-child exclusion applies to changes in ownership that occur on or after November 6, 1986.²⁵³

On March 26, 1996, the voters approved Proposition 193, which amended subdivision (h) to allow transfers from grandparents to grandchildren to be excluded from change in ownership if certain members of the intervening "parent" generation are deceased. Section 63.1 was subsequently amended to reflect these new provisions. The grandparent-grandchild exclusion applies to changes in ownership that occur on or after March 27, 1996.²⁵⁴

ELIGIBLE TRANSFERORS AND TRANSFEREES

Only a transfer between an eligible transferor and an eligible transferee qualifies for an exclusion under section 63.1.²⁵⁵ An *eligible transferor* is a grandparent, parent, or child of an eligible transferee.²⁵⁶ An *eligible transferee* is a parent, child, or grandchild of an eligible transferor.²⁵⁷

Article XIII A, section 2, subdivision (h) of the California Constitution delegates to the Legislature the task of defining the terms *parent*, *child*, *grandparent*, and *grandchild*. The terms *parent* and *grandparent* are not specifically defined by statute. Rather, the eligible relationships are defined with respect to *children* and *grandchildren*.

CHILDREN

Section 63.1(c) defines *children* as any of the following:

1. Any child born of the parent or parents, except a child who has been adopted by the age of 18 by another person or persons.

²⁵³ Section 63.1(h)(1).

²⁵⁴ Section 63.1 (h)(2).

²⁵⁵ Section 63.1(a).

²⁵⁶ Section 63.1(c)(6).

²⁵⁷ Section 63.1(c)(7).

- 1 2. Any stepchild or spouse of that stepchild while the relationship of stepparent and
2 stepchild exists, which means until the marriage on which the relationship is based is
3 terminated by divorce or, if terminated by death, until the remarriage of the surviving
4 stepparent.
- 5 3. Any son-in-law or daughter-in-law of the parent(s) while the in-law relationship exists,
6 which means until the marriage on which the relationship is based is terminated by
7 divorce, or, if terminated by death, until the remarriage of the surviving son-in-law or
8 daughter-in-law.
- 9 4. Any child statutorily adopted by the parent(s) by the age of 18.
- 10 5. Any foster child of a state-licensed foster parent if that child was not, because of a legal
11 barrier, adopted by the foster parent before the child aged out of the foster care system.

12 An *adopted* child is a child who was formally adopted pursuant to procedures in the Family Code
13 before reaching the age of 18. This does not include a child who is treated as a child for probate
14 purposes under the doctrine of equitable adoption.²⁵⁸

15 **Registered Domestic Partnerships**

16 Transfers of real property on or after January 1, 2005 between parents and their child and that
17 child's registered domestic partner are eligible for the parent-child exclusion. Effective
18 January 1, 2005, Family Code section 297.5(a) provides that registered domestic partners have
19 the same rights, protections, and benefits and are subject to the same responsibilities, obligations,
20 and duties under law, whether they derive from statutes, administrative regulations, court rules,
21 government policies, common law, or any other provisions or sources of law, as are granted to
22 and imposed upon spouses. This section goes on to state in subdivision (j) that it does not amend
23 or modify any provision of the California Constitution or any provision of any statute that was
24 adopted by initiative.

25 Thus, registered domestic partners are not eligible for any property tax exclusion based on an
26 aspect of a spousal or marital relationship for which the terms *spouse* and *marriage* are defined
27 by constitutional provision or by statute adopted by initiative. However, since the definition of
28 *child* in section 63.1 was enacted by the Legislature and not by a ballot initiative or constitutional
29 provision, Family Code section 297.5 controls the definition of "children" in terms of the rights
30 of registered domestic partners. Thus, beginning January 1, 2005, any relationship between
31 parents and children established by registered domestic partnership is accorded the same
32 treatment as if established by marriage for purposes of the parent-child exclusion.

33 Moreover, since Family Code section 297.5(d), recognizes that registered domestic partners have
34 the same rights and obligations as spouses with respect to a child of either of them, the

²⁵⁸ Established through case law, the doctrine of equitable adoption allows a person who was accepted and treated as a natural child, and to whom adoption was promised or contemplated but never performed, to share in the inheritance of the foster parents' property. *Estate of Ford*, 32 Cal.4th 160.

1 parent-child exclusion should also apply to transfers from a registered domestic partner to a child
2 of that person's partner.

3 **GRANDCHILD**

4 *Grandchild* is defined as any child of the child of the grandparent or grandparents.²⁵⁹

5 For transfers made between March 27, 1996 and January 1, 2006, the grandparent-grandchild
6 exclusion is only available if *all* of the parents of the grandchild or grandchildren, who were the
7 children of the grandparents, were deceased as of the date of transfer.²⁶⁰

8 For transfers made on or after January 1, 2006, however, a son-in-law or daughter-in-law of the
9 grandparent who is a stepparent to that grandchild need not be deceased as of the date of
10 transfer.²⁶¹ In addition, these stepparents still remain eligible for the parent-child exclusion as
11 they are parents of the stepchildren and in-law children of the grandparents.²⁶²

12 For a transfer to qualify for the grandparent-grandchild exclusion, both parents of the grandchild
13 must be deceased or no longer qualify as a child of the grandparents at the time of the transfer
14 (with the exception mentioned above where only a stepparent is living). As a consequence, even
15 if a living parent disclaims any interest in the grandparent's property, the transfer of real property
16 between a grandparent and a grandchild will not qualify for the exclusion.

17 A *disclaimer* is a writing which declines, refuses, renounces, or disclaims any interest that would
18 otherwise be taken by a beneficiary.²⁶³ A properly executed and filed disclaimer results in the
19 interest disclaimed descending and being distributed as though the disclaimant had predeceased
20 the creator of the interest. However, being treated as deceased and being deceased are not the
21 same. Accordingly, for purposes of the grandparent-grandchild exclusion, the parent must
22 actually be deceased prior to the transfer in order for the transfer of real property from the
23 grandparent to the grandchild to qualify for exclusion.

24 **ELIGIBLE PURCHASES AND TRANSFERS**

25 The parent-child or grandparent-grandchild exclusion provides that a change in ownership does
26 not include the transfer of a principal residence and the first \$1 million of full cash value of other
27 real property.²⁶⁴ (See below for a discussion of the principal residence and \$1 million limit rules.)

28 A qualifying parent-child transfer can be either direction—from the parent to the child or from
29 the child to the parent.²⁶⁵

²⁵⁹ Section 63.1(c)(4).

²⁶⁰ Section 63.1(a)(3)(A).

²⁶¹ Section 63.1(a)(3)(A).

²⁶² Section 63.1(c)(3)(B) and (3)(C).

²⁶³ Probate Code section 265

²⁶⁴ Section 63.1(a)(1) and (a)(2).

²⁶⁵ Section 63.1(c)(1).

1 The grandparent-grandchild exclusion provides that a change in ownership does not include a
 2 transfer *from* a grandparent *to* a grandchild as long as all of the parents of that grandchild or
 3 those grandchildren who qualify as the children of the grandparents are deceased as of the date of
 4 transfer (with the exception of a living stepparent as discussed above).²⁶⁶ A transfer from a
 5 grandchild to a grandparent is not eligible for the exclusion.

6 PURCHASE OR TRANSFER

7 These exclusions apply to both voluntary purchases or transfers and involuntary transfers
 8 resulting from a court order or judicial decree²⁶⁷ or by operation of law. Thus, most transfers of
 9 real property between eligible transferors and transferees that occur after the respective operative
 10 dates can qualify for the exclusions.

11 ACQUISITION BY INHERITANCE

12 An inheritance of real property can qualify for the parent-child or grandparent-grandchild
 13 exclusion. The transfer can occur by will or intestate succession. The transferor must be the
 14 parent or child (for the parent-child exclusion) or the grandparent (for the grandparent-grandchild
 15 exclusion) as an individual and may not be from a legal entity owned by such person.

16 TRUSTS

17 Transfers of real property through the medium of a trust are eligible for the parent-child and
 18 grandparent-grandchild exclusions.²⁶⁸ Since, for property tax purposes, we look through a trust to
 19 the present beneficial owner, transfers via trust are treated as occurring between individuals, and
 20 not between an individual and the trust as an entity.²⁶⁹ Thus, if the requirements of section 63.1
 21 are otherwise satisfied, transfers to and from a trust are eligible for either exclusion. (See
 22 Chapter 3 for a discussion of trusts.)

23 *Example 12-1*

24 X transfers his principal residence into a revocable living trust. When X dies, the trust
 25 terminates and the successor trustee of the trust distributes the property to X's daughter, B,
 26 who is the beneficiary.

27 The initial transfer into X's revocable living trust is excluded from change in ownership.²⁷⁰
 28 Upon X's death, the trust becomes irrevocable and beneficial ownership vests in B. The
 29 change in present beneficial ownership is treated as a transfer from X to B and is excluded
 30 from change in ownership under the parent-child exclusion if a timely claim is filed and all
 31 other requirements have been satisfied.²⁷¹ The distribution of the property to B upon
 32 termination of the trust is merely a change in the method of holding title because B's interest
 33 became possessory upon X's death.

²⁶⁶ Section 63.1(c)(2).

²⁶⁷ Section 63.1(g).

²⁶⁸ Section 63.1(c)(9).

²⁶⁹ An exception is a business trust which is treated as a legal entity for property tax purposes.

²⁷⁰ Section 62(d).

²⁷¹ Rule 462.160(d)(5).

1 **Example 12-2**

2 X creates an inter vivos revocable trust that becomes irrevocable upon X's death. Upon X's
 3 death, a life estate is granted to girlfriend, G, with remainder interest to X's child, C. The
 4 creation of a life estate in G is a change in ownership since no exclusion applies. The
 5 termination of G's life estate upon her death is another change in ownership to which the
 6 parent-child exclusion may be applied. Where a life estate terminates as a result of the death
 7 of the life tenant, the transfer to the remainderman is from the transferor of the remainder
 8 interest, not from the life tenant. This is because the statutory language in sections 61(g),
 9 61(h), and 62(d) identify the grantor of a life estate as the "transferor" of the remainder or
 10 reversionary interest. Assuming the parent-child claim is timely filed, the property will not be
 11 reassessed upon the termination of the life estate and the property will retain G's base year
 12 value.

13 **ESTATE DISTRIBUTIONS – PRO RATA AND NON-PRO RATA**

14 It is common for a trust to provide that the assets of an estate are to be distributed to the
 15 beneficiaries on a share-and-share-alike basis, meaning that each beneficiary is to receive an
 16 equal share in each and every property owned by the decedent. The application of a parent-child
 17 or grandparent-grandchild exclusion to the distribution of real property depends on whether trust
 18 limits the trustee's powers to distribute the estate property. Probate Code section 16246 provides
 19 that a trustee has the power to effect distribution of property and money in divided or undivided
 20 interests and to adjust resulting differences in value.

21 If a trust limits the trustee's powers and requires the trustee to distribute the trust property on a
 22 share-and-share-alike basis, a distribution of real property is considered to be a direct transfer
 23 from the trustor to the beneficiaries. For example, if trust assets must be distributed to four
 24 children on a share and share alike basis and the real property is distributed to the four children
 25 as joint tenants, this transaction would be 100 percent excluded as a parent-child transfer because
 26 the percentage of interests transferred equals each child's proportional interest in the estate.

27 On the other hand, if a trust provides for distributions on a share-and-share-alike basis and the
 28 trustee's statutory authority to make non-pro rata distributions is not limited, the trustee may
 29 either give the beneficiaries equal ownership in each trust asset (*pro rata*) or may allocate
 30 specific assets to individual beneficiaries (*non-pro rata*), the value of which do not exceed each
 31 beneficiaries' equal percentage interest in the trust property.

32 **Example 12-3**

33 X transfers her home with a fair market value of \$500,000 and securities valued at \$500,000
 34 to her trust for the benefit of her children B and C, to be distributed on a share-and-share-
 35 alike basis.

36 The trustee's authority to make non-pro rata distributions is not limited by the trust. The
 37 trustee could make a pro rata distribution by giving B and C each a 50 percent interest in the
 38 home and \$250,000 in securities. Alternatively, the trustee could make a non-pro rata

1 distribution by giving B the home and C the securities. The home could qualify for exclusion
2 under either allocation.

3 **Beneficiary-to-Beneficiary Transfer**

4 If the trustee does not have the authority to make a non-pro rata distribution, or a particular
5 non-pro rata distribution is in excess of the recipient beneficiary's share of the trust property, the
6 excess is considered to be a transfer between the beneficiaries rather than from the trustor to a
7 beneficiary. Additionally, if real property is distributed to all of the beneficiaries, any subsequent
8 transfer between the beneficiaries is a change in ownership unless an exclusion applies.

9 ***Example 12-4***

10 M's trust directed that the trust property be distributed equally to each of her three children—
11 X, Y, and Z. The trustee transferred M's principal residence to X, Y, and Z as tenants in
12 common. X and Y subsequently transferred their interests to Z.

13 The initial transfer of the principal residence to the three children qualifies for the parent-
14 child exclusion. However, the subsequent transfers by X and Y to Z results in a two-thirds
15 reassessment of the property.

16 ***Example 12-5***

17 X dies, leaving an estate valued at \$1,500,000 to be equally shared by her two children
18 (\$750,000 to be distributed to each child). Child A receives real property with an equity
19 value of \$810,000 and \$280,000 of other assets, for a total of \$1,090,000.

20 The entire trust assets determine what each child's share should be. In this situation, the value
21 of \$1,500,000 is split equally between two children so that each should get \$750,000 of
22 assets each. To determine if a reassessment is necessary, the market value of the real property
23 is compared to that child's share of the estate, disregarding the distribution of any other
24 assets. The value of the real property exceeded Child A's share by \$60,000. The difference
25 between \$810,000 and \$750,000 is \$60,000. Dividing \$60,000 by \$810,000 equals
26 .074074. Thus, the property was subject to a 7.4% change in ownership.

27 **Equalizing Trust Distributions**

28 Equalization issues may arise when a single property is the primary trust asset and that asset is
29 distributed to one beneficiary. If the trustee has the authority to make a non-pro rata distribution
30 and thus allocate specific assets to an individual beneficiary and the value of the property does
31 not exceed that beneficiary's share of the trust estate, the transfer is considered to be made from
32 the trustor to the beneficiary and eligible for the parent-child exclusion. The value of the property
33 is the market value on the date of the parent-child transfer (typically date of death), less any
34 encumbrances on the property.

35 Furthermore, unless prohibited by the trust, a trustee who makes a non-pro rata distribution may
36 encumber the property with a loan prior to distributing the property to one beneficiary. The
37 trustee may then distribute the loan proceeds to the other beneficiaries to equalize the value of

1 the distributions to all of the beneficiaries. However, the trustee must be the party encumbering
 2 the property and the trustee may not encumber the property with a loan from the beneficiary who
 3 will receive the property. The trustee may obtain a loan secured by the property from a third-
 4 party lender, such as a bank, or a beneficiary who will not receive the property as part of the trust
 5 distribution.

6 ***Example 12-6***

7 X transfers her unencumbered principal residence to her trust, to be distributed on a share-
 8 and-share-alike basis to B and C upon X's death. The trustee is authorized to make non-pro
 9 rata distributions.

10 As of X's date of death, the real property is the only asset and has a fair market value of
 11 \$500,000. If the trustee decides to distribute the entire residence to B, the trustee may first
 12 borrow \$250,000 from a third party, secured by the residence, and may distribute the loan
 13 proceeds to C. The trustee may then distribute the residence, encumbered by the \$250,000
 14 deed of trust, to B; B would have to repay the loan. The encumbrance would equalize the
 15 non-pro rata distribution.

16 If B and C are the children of X, the transfer of the principal residence to B qualifies for the
 17 parent-child exclusion if all other requirements are satisfied.

18 ***Example 12-7***

19 D transfers his real property to his trust to be distributed on a share and share alike basis to
 20 children B and C upon D's death. The trustee is authorized to make non-pro rata distributions.
 21 Upon D's death, only asset is the real property with a fair market value of \$500,000. The
 22 trustee distributes property to B; B gets a \$250,000 loan and pays C from loan proceeds or
 23 pays C \$250,000 from personal funds. The transfer of the real property to B qualifies for the
 24 parent-child exclusion as to B's 50 percent interest in the trust assets. The other 50 percent is
 25 a change in ownership as a sibling transfer.

26 **Will Distributions**

27 Whether a change in ownership occurs when a child receives a 100 percent interest in real
 28 property from a parent's estate when the estate is distributed according to a will on a share and
 29 share alike basis depends on whether the will gives the executor a clear grant of broad discretion
 30 to distribute property in kind on a pro rata or non-pro rata basis. Under the Probate Code section
 31 21102, the intention of the transferor as expressed in the instrument controls the legal effect of
 32 the dispositions made in the instrument.

33 Therefore, if it is determined that the will clearly grants the executor broad discretion in
 34 distributing property in kind on a pro rata or non-pro rata basis, the change in ownership
 35 consequences are identical to those described for trusts above. The key to a share-and-share alike
 36 distribution to children is that no change in ownership occurs upon distribution by the executor,
 37 unless a beneficiary receives property or assets valued in excess of the value of his or her share. The

1 value of each share as of the date of death²⁷² is the determining factor. If one sibling receives more
2 value than the others, the result is a transfer from the other siblings to the one with the excess value.

3 **TRANSFERS INTO AND OUT OF LEGAL ENTITIES**

4 Both the parent-child and the grandparent-grandchild exclusions apply only to a transfer of real
5 property. *Real property* means real property as defined in section 104 and does not include any
6 legal entity interest.²⁷³ Thus, unlike the interspousal and registered domestic partner exclusions, a
7 transfer of a legal entity ownership interest cannot qualify for either the parent-child or the
8 grandparent-grandchild exclusion.

9 To qualify for either of these exclusions, if property is held in a legal entity such as a family
10 limited partnership, the property must first be proportionally transferred from the legal entity to
11 the individual partners prior to making the parent-child or grandparent-grandchild transfer.

12 **Step Transaction Doctrine**

13 The step transaction doctrine allows a county assessor to disregard, for taxation purposes, a
14 series of real property transfers when the facts suggest the transfer might have been
15 accomplished in fewer steps and the purpose for using additional steps was to circumvent the
16 intent of the change in ownership statutes.²⁷⁴ In multiple-transaction situations involving parent-
17 child or grandparent-grandchild transfers, if the transfer of the real property out of the legal
18 entity is for the purpose of qualifying for the exclusion under section 63.1, the step transaction
19 doctrine does not apply pursuant to the statement of legislative intent.

20 In enacting section 63.1, the Legislature stated its intent that the step transaction doctrine should
21 not be applied to collapse steps involving parent-child transfers, including transfers involving
22 legal entities. In an uncodified note to section 63.1, the Legislature wrote, in part, that:²⁷⁵

23 ...it is the intent of the Legislature that the provisions of Section 63.1 of the
24 Revenue and Taxation Code shall be liberally construed in order to carry out the
25 intent of Proposition 58 on the November 4, 1986, general election ballot to
26 exclude from change in ownership purchases or transfers between parents and
27 their children described therein.

28 The legislative purpose goes on to specify that the step transaction doctrine should not apply to
29 following types of transfers:

30 ...Specifically, transfers of real property from a corporation, partnership, trust, or
31 other legal entity to an eligible transferor or transferors, where the latter are the
32 sole beneficial owner or owners of the property, shall be fully recognized and
33 shall not be ignored or given less than full recognition under a substance-over-
34 form or step-transaction doctrine, where the sole purpose of the transfer is to

²⁷² See date of change in ownership exception for *Larson v. Duca*.

²⁷³ Section 63.1(c)(8).

²⁷⁴ *Shuwa Investments Corp. v. County of Los Angeles* (1991) 1 Cal.App.4th 1635, 1648-1649.

²⁷⁵ Addressed in Section 2 of Chapter 48 of the Statutes of 1987.

1 permit an immediate retransfer from an eligible transferor or transferors to an
 2 eligible transferee or transferees which qualifies for the exclusion from change in
 3 ownership provided by Section 63.1. Further, transfers of real property between
 4 eligible transferors and eligible transferees shall also be fully recognized when the
 5 transfers are immediately followed by a transfer from the eligible transferee or
 6 eligible transferees to a corporation, partnership, trust, or other legal entity where
 7 the transferee or transferees are the sole owner or owners of the entity or are the
 8 sole beneficial owner or owners of the property, if the transfer between eligible
 9 transferors and eligible transferees satisfies the requirements of Section 63.1.

10 Thus, the step transaction doctrine should not be applied where transactions are consistent with
 11 this statement of legislative intent. Furthermore, effective for transfers on or after
 12 January 1, 2007, the above-quoted intent expressed by the Legislature also applies to
 13 grandparent-grandchild transfers.²⁷⁶ (See Chapter 7 for a more detailed discussion of the step
 14 transaction doctrine.)

15 On the flip side, the substance-over-form argument does not apply where the intermediary steps
 16 were not actually taken. A transfer from a parent to a family partnership whose partners are the
 17 parent and the parent's adult children is a non-proportional transfer (ownership interests are not
 18 the same before and after the transfer) and results in a change in ownership to which the parent-
 19 child exclusion does not apply.²⁷⁷

20 DATE OF CHANGE IN OWNERSHIP

21 The parent-child and grandparent-grandchild exclusions apply to transfers that occur on or after
 22 the effective date of the respective exclusions. In general, the date of change in ownership is
 23 governed by the provisions of Rule 462.260. The change in ownership date for property that is
 24 sold is rebuttably presumed to be the recording date if a deed or other document evidencing the
 25 transfer is recorded. The date of any transfer under a will, trust or intestate succession is the date
 26 of the decedent's death.

27 The parent-child exclusion applies to changes in ownership that occur on or after
 28 November 6, 1986.²⁷⁸ For parent-child transfers, there is an exception for certain situations
 29 where the date of death occurred before November 5, 1986 (see *Application of Larson v. Duca*
 30 following). The grandparent-grandchild exclusion applies to changes in ownership that occur on
 31 or after March 27, 1996.²⁷⁹

²⁷⁶ Statutes of 2007, Chapter 224 (Senate Bill 1607).

²⁷⁷ *Penner v. Santa Barbara* (1995) 37 Cal.App.4th 1672.

²⁷⁸ Section 63.1(h)(1).

²⁷⁹ Section 63.1 (h)(2).

1 **APPLICATION OF *LARSON V. DUCA***

2 An exception exists where the date of death occurred prior to November 5, 1986 and a decree of
 3 distribution is filed after this date. In *Larson v. Duca*,²⁸⁰ the Court of Appeal held that although
 4 the decedent died prior to the effective date of Proposition 58, the change in ownership in the
 5 real property from the decedent to her son did not occur on the date of her death, but instead
 6 resulted from the decree of distribution of the probate court issued after the effective date of
 7 Proposition 58.

8 The holding in *Larson v. Duca* is limited to the situation where a decedent died before
 9 November 5, 1986 and the estate is probated and thereafter distributed to the decedent's child
 10 through a decree of distribution issued after November 5, 1986. Under such circumstances, the
 11 date of the decree of distribution is considered to be the date of the transfer of the property from
 12 the parent to the child.

13 After this decision was published, section 63.1(c)(1) was amended to specifically provide that
 14 the date of death is the date of transfer if the decedent died on or after November 6, 1986.²⁸¹

15 **PRINCIPAL RESIDENCE**

16 A change in ownership does not include the purchase or transfer, between parents and their
 17 children, of real property that is the principal residence of an eligible transferor, providing that a
 18 claim is filed.²⁸² As of January 1, 2008, a *principal residence* is defined as the residence that is
 19 *eligible for* either the homeowners' exemption or the disabled veterans' exemption as a result of
 20 the transferor's ownership and occupation of the residence.²⁸³ Previously, the homeowners'
 21 exemption or the disabled veterans' exemption had to be granted in the name of the transferor.

22 A principal residence is a person's true, fixed, and permanent home and the principal
 23 establishment to which the owner, whenever absent, intends to return. If the homeowners' or
 24 disabled veterans' exemption was not granted in the name of the transferor, then proof that the
 25 real property was the principal residence of the transferor must be provided. Proof of residency
 26 may include, but is not limited to, vehicle registration, voter registration, bank accounts, or
 27 income tax records.

28 Any portion of a property that does not qualify as the principal residence (for example, the other
 29 unit of a duplex) can qualify for exclusion under the \$1 million limit.

30 **PARENT-CHILD EXCLUSION**

31 The parent-child exclusion can be used to transfer (and receive) an unlimited number of principal
 32 residences. Additionally, there is no dollar amount exclusion limit on principal residence

²⁸⁰ 213 Cal.App.3d 324 (1989).

²⁸¹ Statutes of 1992, Chapter 1180, section 2 (Senate Bill 1639).

²⁸² Section 63.1(a)(1).

²⁸³ Section 63.1(b)(1).

1 transfers. The only requirement is that the residence be the principal residence of the transferor
2 as of the date of the transfer.

3 ***Example 12-8***

4 Parent P sells her principal residence to her child D and purchases a smaller home that
5 becomes P's new principal residence. Thereafter, P sells this second principal residence to her
6 child S and then purchases a condominium which becomes P's principal place of residence.

7 Both sales may qualify as transfers of a principal residence.

8 **GRANDPARENT-GRANDCHILD EXCLUSION**

9 In the event a grandchild did not receive a principal residence from his or her deceased parent
10 that was excludable under the parent-child exclusion, the grandchild may receive a principal
11 residence under the grandparent-grandchild exclusion regardless of its value (it will not be
12 subject to the \$1 million exclusion limit).²⁸⁴ However, if a grandchild had previously received an
13 excludable principal residence from his or her deceased parent, the transfer of any dwelling from
14 the grandparent, including the grandparent's principal residence, is considered other real
15 property, which is subject to the deceased parent's \$1 million limitation.²⁸⁵ If the deceased parent
16 had already used his or her \$1 million exclusion, then the grandparent-grandchild exclusion is
17 not available.

18 ***Example 12-9***

19 Grandfather G sells his principal residence with an adjusted base year value of \$1.5 million
20 to his grandchild C (whose parents have died).

21 If C never received a principal residence from her parents, the sale qualifies for the
22 grandparent-grandchild exclusion. If C had previously received an excludable principal
23 residence from her parents but had not received any other property from her parents,
24 \$1 million of the adjusted base year value would qualify for the grandparent-grandchild
25 exclusion and counts against her deceased parent's \$1 million limit. Accordingly, there would
26 be a change in ownership with respect to one-third (\$500,000) of the principal residence C
27 purchased from G.

28 ***Example 12-10***

29 Grandmother G had a daughter D. Upon D's death in 1990, her child C inherited a principal
30 residence and an income property that had an adjusted base year value of \$700,000. D was
31 unmarried when she died. Upon Grandmother G's death in 2004, C inherited Grandmother's
32 house which had an adjusted base year value of \$600,000.

²⁸⁴ Section 63.1(a)(3)(B).

²⁸⁵ Section 63.1(a)(3)(B).

1 The house C received from the grandmother must be considered as other property because C
 2 received a principal residence from her parents. Since C also received income property from
 3 D, the remainder of D's \$1 million exclusion (\$300,000) can be applied under the
 4 grandparent-grandchild exclusion. Accordingly, there would be a change in ownership with
 5 respect to 50 percent of the principal residence C inherited from G.

6 **REASONABLE SIZE REQUIREMENT**

7 Only that portion of the land underlying the principal residence that consists of an area of
 8 reasonable size that is used as a site for a residence is considered to be part of the principal
 9 residence eligible for the parent-child or grandparent-child exclusion.²⁸⁶ Whether the size is
 10 reasonable is a question of fact to be determined by a county assessor. Any excess land above the
 11 reasonable amount would be considered other real property of an eligible transferor and therefore
 12 subject to the \$1 million limit.

13 **\$1 MILLION LIMIT**

14 For the parent-child exclusion, a change in ownership does not include transfers of the first
 15 \$1 million of full cash value of non-principal residence real property for which exclusion claims
 16 are filed.²⁸⁷ (See below for a discussion of filing requirements.) Section 110.1 provides that *full*
 17 *cash value* means the fair market value as of the 1975 lien date or the date of change in
 18 ownership, whichever occurs last, plus inflationary factoring. In other words, the value that is
 19 counted toward the \$1 million limit is the adjusted base year value just prior to the date of
 20 transfer.

21 For purposes of the parent-child exclusion, the \$1 million exclusion applies separately to each
 22 eligible transferor of real property owned by that transferor. The grandparent-grandchild
 23 exclusion may be claimed only to the extent that a deceased parent's \$1 million exclusion has
 24 not been used.

25 For a transfer of property subject to Proposition 13, the full cash value is the adjusted base year
 26 value immediately prior to the transfer to an eligible transferee.²⁸⁸ Where the transferred property
 27 is restricted by a Williamson Land Conservation Act or Mills Act historical property contract or
 28 is located in a Timberland Production Zone, the excluded value is the adjusted base year value,
 29 not the restricted value. For properties that have a current market value enrolled due to a decline
 30 in value (Proposition 8 value), the value counted toward the \$1 million limit is the adjusted base
 31 year value, not the current market value.

32 The transfer of real property outside California, and transfers for which the exclusion is not
 33 claimed, are not counted toward the \$1 million exclusion limit.

²⁸⁶ Section 63.1(b)(1).

²⁸⁷ Section 63.1(a)(2).

²⁸⁸ Rule 460(b)(1) and (b)(2).

1 **Example 12-11**

2 Parents jointly own, as community property, one parcel of investment real estate with an
3 assessed value of \$3 million.

4 Each parent can transfer up to \$1 million in value of what they own to a child or children. If
5 the entire parcel is transferred to one child, \$2 million would be excluded from reassessment
6 under the parent-child exclusion and one-third (\$1 million) of the property would be
7 reappraised.

8 **JOINT TENANCIES AND THE \$1 MILLION EXCLUSION**

9 The \$1 million exclusion cannot be used to exclude the transfer of a property in which the
10 eligible transferor's interest was received through a transfer that was excluded from change in
11 ownership under sections 65(b) or 62(f), unless the eligible transferor was an original
12 transferor.²⁸⁹ (See Chapter 2 for a discussion of original transferor.)

13 **Example 12-12**

14 M is the mother of D and S. D owned real property outright and then added M, her mother,
15 and S, her brother, to title as joint tenants. D and M died and their interest passed to S by
16 right of survivorship. The property is not eligible for the parent-child exclusion and is subject
17 to 100 percent change in ownership as a sibling transfer.

18 When D added M and S as joint tenants, there was no change in ownership²⁹⁰ because D
19 remained on title as a joint tenant. Thus, D became an original transferor and M and S
20 became other than original transferors.²⁹¹

21 However, when D and M died, M's interest that passed to S does not qualify for the parent-
22 child exclusion because when M's interest was excluded from reassessment under the joint
23 tenancy rules, and M was an other than original transferor.

24 **MULTIPLE PROPERTIES**

25 If parent-child or grandparent-grandchild claims are filed for multiple properties and the total
26 assessed values exceed \$1 million, the properties that transferred first (as determined by transfer
27 date) receive the \$1 million exclusion. If the transfer date is the same for all properties (for
28 example, upon a date of death), the transferees must decide which properties are to receive the
29 \$1 million exclusion.

30 **Example 12-13**

31 X owns a vacation cabin, an apartment building, and other commercial property. X transfers
32 to his daughter B a commercial building with an adjusted base year value of \$400,000. B
33 failed to file a claim for the exclusion.

²⁸⁹ Section 63.1(b)(2).

²⁹⁰ Sections 62(f) or 65(b).

²⁹¹ Section 65(b).

1 Years later, when X transfers to his son C the vacation cabin with an adjusted base year value
 2 of \$250,000 and the apartment building with an adjusted base year value of \$750,000, X's
 3 entire \$1 million exclusion amount is still available to C because B did not file a claim for the
 4 exclusion.

5 **ALLOCATION OF THE \$1 MILLION EXCLUSION**

6 When the adjusted base year value of the real property exceeds the \$1 million limit, the
 7 exclusion must be allocated between the land and improvements on a pro rata basis.²⁹²

8 *Example 12-14*

9 X inherits an investment property (not a principal residence) from her parents. The property
 10 had an adjusted base year value of \$1.2 million, allocated as follows:

11 Land = \$400,000
 12 Improvements = \$900,000

13 X files a parent-child exclusion claim form with the county assessor. Since the \$1 million
 14 exclusion must be allocated on a pro rata basis, the ratio of land and improvements to total
 15 adjusted base year value is calculated as follows:

| | Adjusted Base Year Value | Ratio |
|--------------|---------------------------------|-------------------------|
| Land | \$300,000 | 300,000/1,200,000 = 25% |
| Improvements | \$900,000 | 900,000/1,200,000 = 75% |
| Total | \$1,200,000 | |

16 Applying the applicable exclusion percentages, the \$1 million exclusion is allocated as
 17 follows:

| | Excludable Value | Non-Excludable Value | Total |
|--------------------------------|-----------------------------|-----------------------------|--------------|
| Land (25% excluded) | 1,000,000 x 25% = \$250,000 | \$50,000 | \$300,000 |
| Improvements (75% excluded) | 1,000,000 x 75% = \$750,000 | \$150,000 | \$900,000 |
| Total | \$1,000,000 | \$200,000 | \$1,200,000 |

18 **FILING REQUIREMENTS**

19 No parent-child or grandparent-grandchild exclusion from change in ownership may be allowed
 20 until the appropriate claim form is filed with the county assessor of the county in which the
 21 property is located.²⁹³

²⁹² Section 63.1(d)(2).

²⁹³ Section 63.1(d).

1 Both the transferor and transferee, or the executors of their estates or their legal representatives,
 2 must provide written certification under penalty of perjury as to the parent-child or grandparent-
 3 grandchild relationship and certain information about the property and any previous transfers.²⁹⁴
 4 If there is more than one transferor, each transferor must provide certification.²⁹⁵ Conversely, if
 5 there is more than one transferee, only one of the transferees needs to certify and sign if the
 6 certifying/signing transferee has actual knowledge that all of the transferees are eligible
 7 transferees.²⁹⁶

8 Inclusion of the transferor and transferee signatures on the claim form²⁹⁷ is the standardized
 9 method approved by the Board for a county assessor to obtain such written certifications. The
 10 lack of the transferor's signature on the claim form does not preclude a county assessor from
 11 determining whether there is sufficient independent evidence to satisfy the declarations required
 12 by statute.

13 If, for example, there are other forms or writings, deeds, court documents, etc., signed under oath
 14 or penalty of perjury, which support the declarations being made, then such documentation could
 15 satisfy the requirement of written certification by the transferor. The weighing of such evidence,
 16 of course, and the ultimate conclusion to which it leads are questions of fact entirely within the
 17 purview of a county assessor, with review rights by a county assessment appeals board.

18 The claim form is not a public document and is not subject to public inspection. However, it may
 19 be inspected by the transferee and transferor and their respective spouses, the legal representative
 20 of the transferee and the transferor, and the executor or administrator of the transferee's or
 21 transferor's estate.²⁹⁸

22 **RETROACTIVE RELIEF**

23 To receive the exclusion effective as of the date of transfer of real property, a claim for the
 24 parent-child or grandparent-grandchild exclusion must be filed within three years of the date of
 25 the transfer, or before the property has been transferred to a third party, whichever is earlier.²⁹⁹

26 A third party is a person who is not a transferor or transferee in the transfer for which the claim is
 27 being filed. Thus, a transfer to a parent or child of the transferor is not considered a transfer to a
 28 third party.³⁰⁰ In the situation where a parent transfers property to a child, or a grandparent to a
 29 grandchild, and the child then transfers the property into a trust *prior* to filing a claim for the
 30 section 63.1 exclusion, the transfer to the trust is not a third party transfer as long as the child is a
 31 present beneficiary of the trust (for example, the child transfers the property to the child's
 32 revocable living trust). Therefore, a change in ownership would not result.

²⁹⁴ Section 63.1(d)(1)(A).

²⁹⁵ Section 63.1(d)(1)(A), (B) and (C).

²⁹⁶ Section 63.1(d)(1)(D).

²⁹⁷ Form BOE-58-AH [parent-child] and form BOE-58-G [grandparent-grandchild].

²⁹⁸ Section 63.1(i).

²⁹⁹ Section 63.1(e)(1)(A) and (1)(B).

³⁰⁰ Section 63.1(e)(4).

1 By contrast, a third party transfer does occur when a child transfers real property received from a
 2 parent to a legal entity (other than a trust in which the child is a present beneficiary) *prior* to
 3 filing a claim for the section 63.1 exclusion, even if the legal entity is wholly owned by the child.
 4 A change in ownership would result because a legal entity has a separate and distinct identity.
 5 The filing requirements for claiming the section 63.1 exclusion cannot be met if a claim has not
 6 been filed prior to the transfer into the legal entity, even assuming that the transfer to the legal
 7 entity would have been excluded from change in ownership under section 62(a)(2) because
 8 proportional interests were maintained.

9 If the property has been transferred to a third party or the three-year statute of limitations has
 10 passed, a claim form will be considered timely if it is filed no later than six months after the date
 11 of mailing of a notice of supplemental or escape assessment.³⁰¹

12 ***Example 12-15***

13 Parent died on August 15, 2000. The successor trustee sold the property to a third party on
 14 September 25, 2001. Supplemental assessment notice for the date of death was mailed on
 15 February 1, 2002. Children filed Proposition 58 claim on June 15, 2002.

16 The claim is still considered timely because it was filed before the end of the six-month
 17 deadline.

18 **PROSPECTIVE RELIEF**

19 If both three-year and six-month limitation periods (discussed above) have expired and the
 20 property has not been transferred to a third party, a claim may be filed at any time, however, only
 21 prospective relief may be granted.³⁰²

22 For prospective relief, the transferee will receive relief beginning with the lien date of the
 23 assessment year in which the claim is filed.³⁰³ For example, if a claim for prospective relief is
 24 filed on May 1, 2007, the claimant would receive relief for the January 1, 2007 lien date for the
 25 2007-08 fiscal year. If a claim is filed after the roll is closed (July 1), the roll should be corrected
 26 and tax bills cancelled or payments refunded, as applicable.

³⁰¹ Section 63.1(e)(1)(C).

³⁰² Section 63.1(e)(2).

³⁰³ Section 63.1(e)(2)(A).

CHAPTER 13: PARTITION AND DE MINIMIS EXCLUSIONS

PARTITION

A *partition* is any division of real property giving separate title to those who previously held undivided interests as co-owners, such as in a joint tenancy or a tenancy in common. (See Chapter 2 for a discussion of joint tenancies and tenancies in common.)

SECTION 62(A)(1) EXCLUSION

A partition may result in a transfer of property that is excluded from change in ownership under section 62(a)(1).³⁰⁴ These provisions are applicable only to transfers of interests held in tenancy in common or in joint tenancy and does not apply to transfers involving legal entities. Exclusions for transfers of real property between co-owners involving other forms of co-ownership (community property and legal entities) are specifically covered in other code sections.

Under section 62(a)(1), a real property transfer is excluded from change in ownership if the transfer results solely in a change in the method of holding title to the property transferred without a change in the proportional interests of the co-owners. The general rule is that if a partition has resulted in a change in proportional ownership interests, the property will be reassessed to the extent of the disproportionate transfer, as measured by market value.

Example 13-1

A, B, C, and D own a four-acre parcel of land as joint tenants. They split the parcel into two lots: a one-acre parcel and a three-acre parcel. A takes title to the one-acre parcel and B, C, and D take title to the three-acre parcel. These transfers can be excluded from reassessment as long as A's parcel is equivalent in value to 25 percent of the whole before the parcel split.

APPRAISAL UNIT

The concept of *appraisal unit* is central to a determination of whether proportional interests in a property remain the same after a partition for purposes of applying the rule in section 62(a)(1).³⁰⁵ An *appraisal unit* is defined as that which persons in the marketplace commonly buy and sell as a unit, or that is normally valued separately.³⁰⁶

A single farm consisting of ten parcels would be a single appraisal unit. The partition of that single farm to two equal co-owners would not result in a change in ownership if each co-owner's interest in the partitioned property were of equal value afterward.

However, the partition of jointly held interests in two separate and distinct properties (two appraisal units) would require the comparison of the proportional interests held before and after

³⁰⁴ See also Rule 462.020(b)(1).

³⁰⁵ For a complete discussion of the concept of appraisal unit, see Assessors' Handbook Section 501, *Basic Appraisal*, January 2002, page 10.

³⁰⁶ Section 51(d).

1 the transfer in each separate property. In other words, there will be a change in ownership of
2 each separate property of the interest transferred.

3 **PARTITIONS—VALUATION**

4 In determining whether the same proportional ownership interest exists after a partition, it is
5 necessary to establish and compare the fair market values of the separate properties post-
6 partition. For example, if a two-acre parcel (single appraisal unit) is being partitioned into two
7 separate one-acre parcels, the value of each individual parcel must be determined and the two
8 values compared.

9 ***Example 13-2***

10 X and B are equal tenants in common in a farm consisting of ten parcels, a single appraisal
11 unit. The adjusted base year value of the appraisal unit is \$300,000 (each owner has one-half
12 interest valued at \$150,000). The farm has a current fair market value of \$1 million. X and B
13 partition the farm and grant to X sole ownership of six parcels and to B sole ownership of the
14 remaining four parcels.

15 The interests held by each owner must be appraised to determine if X or B acquired more
16 than their respective proportional interests. If X's partitioned six parcels has a current fair
17 market value of \$600,000, and B's partitioned four parcels has a current fair market value of
18 \$400,000, there has been a change in ownership of a 10 percent interest (X now holds
19 60 percent and B now holds 40 percent ownership interest whereas prior to the partition each
20 owned 50 percent).

21 Since X owns more than he did prior to the partition, X's base year value must be increased.
22 He owned 50 percent and now owns 60 percent. His original 50 percent interest had an
23 adjusted base year value of \$150,000, which remains intact. However, added to that would be
24 the 10 percent interest he acquired, calculated at 10 percent of the current fair market value
25 of the entire farm. His new base year value would be \$250,000 [$\$150,000 + \$100,000$
26 (10 percent of partition date fair market value of \$1,000,000)].

27 Since B now owns less than he did prior to the partition, B's base year value must be reduced.
28 B's new base year value would be \$120,000 (40 percent of \$300,000 adjusted base year value
29 of the appraisal unit).

30 ***Example 13-3***

31 X and B are equal tenants in common in two residential vacant lots. Each lot is the same size
32 and each has a \$5,000 adjusted base year value and a fair market value of \$10,000. X and B
33 partition their tenancies, resulting in X owning one lot and B owning the other.

34 If each lot is a separate appraisal unit, this transfer would cause a change in ownership of the
35 50 percent transferred for each lot. The reasoning is that X and B began with each owning
36 one-half of each lot (an undivided one-half interest in each appraisal unit) and after, each
37 owned 100 percent of one lot. Therefore, one-half of each lot must be reassessed. The new

1 base year value of each lot would be \$7,500 [\$2,500 (one-half of the original adjusted base
2 year value) + \$5,000 (one-half of partition date fair market value of \$10,000)].

3 For the section 62(a)(1) exclusion to apply, X and B would need to each receive one-half of
4 each lot by way of a lot split, thereby receiving one-half of each appraisal unit.

5 In some cases, the partition of property is legally challenged and the partition may take more
6 than one assessment year to be fully executed. The section 62(a)(1) exclusion from change in
7 ownership still applies even though the partition takes more than one assessment year to fully
8 execute.

9 **PARTITIONS—CONVERSION TO CONDOMINIUMS**

10 A partition is the method used when co-owners of an apartment building wish to convert their
11 units to condominiums.³⁰⁷ In this case, the timing of the partition will determine whether there
12 has been a change in ownership requiring a reappraisal.

13 A condominium project, like a normal subdivision, is assessed as a single parcel to the record
14 owner for the year in which the subdivision tract map is filed. Unlike a normal subdivision,
15 however, separate assessment of individual units in the ensuing years is not automatic, but occurs
16 only after the conveyance of at least one condominium unit. If no units are ever sold, the entire
17 condominium project will continue to be assessed as a single parcel. Thus, a condominium is
18 treated as a single appraisal unit before the first individual unit is sold.³⁰⁸

19 If the partition occurs before the condominium conversion, the entire apartment complex would
20 be regarded as one appraisal unit. In that case, if after the partition the interests of each co-owner
21 are in proportion to the interest held prior to the partition, no reappraisal occurs.

22 ***Example 13-4***

23 Four persons purchased a parcel of property as tenants in common with each owning a 25
24 percent undivided interest. A four-unit apartment complex was constructed on the property.
25 While the complex has been approved for condominiums, no separate parcels have been
26 created. The owners now intend to transfer one unit to each person. Each unit is identical and
27 worth \$100,000 for a total value of \$400,000. The transfer of each would be excluded as a
28 partition since the ownership interests remain the same before and after the transfer.

29 On the other hand, if the condominium conversion and the sale of at least one unit precede the
30 partition of the entire complex, then each condominium would be regarded as a separate
31 appraisal unit and each person would be considered a partial owner of each condominium unit. A
32 comparison of the proportional interests held before and after the transfer of each condominium
33 unit would be required.

³⁰⁷ Such conversions would be subject to the limitations contained in sections 2188.3, 2188.6, and 2823.

³⁰⁸ *County of Los Angeles v. Hartford Acc. & Indem. Co.* (1970) 3 Cal.App.3d 809.

1 **Example 13-5**

2 A and B purchased a parcel of property as tenants in common with each owning a 50 percent
3 undivided interest. A three-unit building was constructed on the property. The building was
4 approved for conversion to condominiums. One unit was sold to a third party, and separate
5 parcels were created. A and B now intend to each take title of a separate condominium. Each
6 condominium is worth \$100,000 for a total value of \$200,000. Because each condominium is
7 a separate appraisal unit and A and B own 50 percent of each unit as tenants in common, this
8 transfer would result in a 50 percent change in ownership of each condominium.

9 **5 PERCENT/\$10,000 (DE MINIMIS) EXCLUSION**

10 A transfer of an interest with a fair market value of less than 5 percent of the fair market value of
11 the total property and a total market value transferred of less than \$10,000 during a single
12 assessment year³⁰⁹ (whether accomplished through one or more transfers) is excluded from
13 change in ownership.³¹⁰ Section 65.1(a) states, in part, that:

14 ...when an interest in a portion of real property is purchased or changes
15 ownership, only the interest or portion transferred shall be reappraised. A
16 purchase or change in ownership of an interest with a market value of less than
17 5 percent of the value of the total property shall not be reappraised if the market
18 value of the interest transferred is less than ten thousand dollars (\$10,000),
19 provided, however, that transfers during any one assessment year shall be
20 cumulated for the purpose of determining the percentage interests and value
21 transferred.

22 If the percentage or the fair market value of property transferred in a single assessment year
23 exceeds either of the 5 percent or the \$10,000 threshold, the percentage of the property
24 previously excluded under section 65.1 must be reappraised (unless the transfer is otherwise
25 excluded from change in ownership, such as an interspousal transfer).³¹¹ The 5 percent/\$10,000
26 limit applies to the property, not to each transferor or transferee.

27 **Example 13-6**

28 During an assessment year, the value of the accumulated interests transferred equals
29 3 percent of the fair market value of the total property and the dollar value of these interests
30 is \$12,000.

31 There will be a reappraisal of all the transferred interests because their total value exceeds
32 \$10,000.³¹²

³⁰⁹ Section 118.

³¹⁰ Section 65.1(a).

³¹¹ Rule 462.020(b)(2).

³¹² Rule 462.020, Example 2.

1 ***Example 13-7***

2 B transfers a 2 percent interest in real property, with a market value of \$3,000 to C on
3 March 4. B transfers another 2 percent in real property with a value of \$3,000 to D on
4 July 14. B transfers a third 2 percent real property interest with a value of \$3,000 to E on
5 November 20.

6 Even though cumulatively less than \$10,000 in fair market value was transferred,
7 cumulatively more than 5 percent of interests were transferred. The county assessor should
8 go back and reassess the 2 percent on March 4, the 2 percent on July 14, and 2 percent on
9 November 20. In other words, the county assessor should not reassess 6 percent on
10 November 20 when the cumulative total exceeded the applicable limit.

11 ***Example 13-8***

12 In 2007 two spouses each transferred a 2 percent interest, and each interest had a market
13 value of \$6,000.

14 There will be a reappraisal of the interests that transferred because cumulatively more than
15 \$10,000 of interest (\$12,000) transferred.

CHAPTER 14: BASE YEAR VALUE TRANSFER – OVER 55 OR SEVERELY AND PERMANENTLY DISABLED PERSONS

OVERVIEW

Propositions 60, 90, and 110 amended section 2(a) of article XIII A of the California Constitution to allow persons who are over the age of 55 or severely and permanently disabled to sell a principal place of residence (original property) and transfer the base year value of that property to a qualifying principal residence (replacement dwelling). These base year value transfer provisions are commonly referred to as the "Proposition 60/90/110" exclusion.

Proposition 60, effective November 6, 1986, allows homeowners over age 55 to transfer a base year value if both the original property and the replacement dwelling are located in the **same** county.

Proposition 90, effective November 9, 1988, extends the relief allowed by Proposition 60 to replacement dwellings located in a **different** county, if that county has adopted an ordinance participating in the program. As of January 1, 2009, the following seven counties currently have adopted ordinances implementing these provisions:

| | | | |
|-------------|-----------|-------------|---------|
| Alameda | Orange | San Mateo | Ventura |
| Los Angeles | San Diego | Santa Clara | |

Proposition 110, effective June 6, 1990, extends the relief allowed by Propositions 60 and 90 to severely and permanently disabled persons as long as the move is related to the disability.

These three propositions are implemented by section 69.5, which allows an eligible claimant to transfer the base year value of an original property to a replacement dwelling if the following conditions are satisfied:

- The claimant or claimant's spouse is age 55 or over or severely and permanently disabled.
- The original property is sold and reassessed to current market value.
- The replacement dwelling is purchased or newly constructed within two years of the sale.
- The replacement dwelling is located in the same county as the original property or in a county accepting base year value transfers from other counties.
- The replacement dwelling is of equal or lesser value than the original property.
- A claim is filed with the assessor of the county where the replacement dwelling is located.

ELIGIBLE CLAIMANT

A claimant is any person claiming the relief under section 69.5. A *person* means any individual and does not include a partnership, association, corporation, company, or other legal entity or organization of any kind.³¹³ If a legal entity wholly owns an original property or acquires a replacement dwelling, the base year value transfer under section 69.5 is unavailable.

However, if title of either the original property or the replacement dwelling is held in a trust and the claimant is be the present beneficial owner of the trust, then the base year value transfer is available. (See Chapter 3 for a discussion of trusts.)

Example 14-1

M, who is over 55, transferred her current principal residence to a revocable living trust. M's daughter P is the trustee. M would like to sell her current residence and transfer the base year value to a qualified replacement dwelling which she would also like to hold in the trust.

Assuming that all other conditions are met, M is an eligible claimant because she is the present beneficiary of the trust, and she is considered the owner of both her current residence and her replacement dwelling. P, as trustee and holder of legal title, may sell the original property and purchase a replacement dwelling in the name of the trust, and file a claim on behalf of M, who is an eligible claimant.

A claimant must be an owner and a resident of *both* the original property and the replacement dwelling.³¹⁴

If a *spouse* of a person claiming the property tax relief is a record owner of a replacement dwelling, that spouse is also considered to be a claimant.³¹⁵ However, since a registered domestic partner is not considered a spouse, the registered domestic partner of a claimant who is a record owner of either the original property or the replacement dwelling is not considered a claimant merely by virtue of this relationship, and remains eligible to make a claim in his or her name.

AGE/DISABILITY

Either the claimant, or the claimant's spouse who resides with the claimant, must be at least 55 years of age or severely and permanently disabled on the date of sale of the original property.³¹⁶

Example 14-2

At the time of the sale of an original property, the property owner and his spouse are 54 years of age. After the property owner turns 55, he and his spouse purchase a replacement dwelling.

³¹³ Section 69.5(g)(11).

³¹⁴ Section 69.5(b)(1) [original property] and (b)(4) [replacement dwelling].

³¹⁵ Section 69.5(g)(9).

³¹⁶ Section 69.5(g)(9).

1 The property owner will not qualify since neither he nor his spouse were age 55 when the
 2 original property was sold. However, the property owner would qualify if the replacement
 3 dwelling was purchased at age 54, but the original property was not sold until the property
 4 owner reached age 55.

5 *A severely and permanently disabled person* is described in section 74.3(b) as:

6 ...any person who has a physical disability or impairment, whether from birth or
 7 by reason of accident or disease, that results in a functional limitation as to
 8 employment or substantially limits one or more major life activities of that
 9 person, and that has been diagnosed as permanently affecting the person's ability
 10 to function, including, but not limited to, any disability or impairment that affects
 11 sight, speech, hearing, or the use of any limbs.

12 A person with a mental disability does not qualify on the basis of disability unless the mental
 13 disability manifests itself in a physical impairment within the meaning of section 74.3(b), which
 14 specifies physical disability or impairment. He or she may qualify on the basis of age, however,
 15 regardless of the existence of a non-qualifying disability. If a claimant is qualifying on the basis
 16 of disability, the move must be disability related.

17 **ONE-TIME BENEFIT**

18 In general, each claimant is eligible to transfer his or her base year value only once.³¹⁷ If a
 19 claimant makes a transfer under section 69.5 and his or her spouse is the record owner of the
 20 replacement dwelling, the spouse will also be considered to have received relief under this section.
 21 As a consequence, the spouse would also be prevented from making a future claim.³¹⁸

22 There is one exception to this general rule of a one-time benefit. If a claimant or his or her
 23 spouse becomes severely and permanently disabled after having already used the one-time
 24 benefit on the basis of age (being 55 or over), the claimant or the claimant's spouse is eligible for
 25 a second base year value transfer for severely and permanently disabled persons.³¹⁹

26 **Example 14-3**

27 Husband H (age 57) and his wife W (age 50) sold their original property and purchased a
 28 replacement dwelling. The couple transferred their base year value. Four years later, W
 29 becomes severely arthritic and cannot climb the stairs to the bedrooms on the second floor,
 30 qualifying her as severely and permanently disabled. They sell the replacement dwelling and
 31 purchase another home to accommodate W's disability.

32 Since the disability arose after the date of the over age 55 claim for base year value transfer,
 33 H or W can transfer the base year value a second time on the basis of the disability. W does
 34 not have to be over 55 to qualify for the relief based on her disability.

³¹⁷ Section 69.5(b)(7).

³¹⁸ Section 69.5(g)(9) and (b)(7)

³¹⁹ Section 69.5(b)(7).

1 This exception is not available for the reverse situation. That is, if a person received a base year
 2 value transfer because of a disability and subsequently applies to transfer the base year value a
 3 second time after attaining the age of 55, the second claim would not qualify for relief.

4 REGISTERED DOMESTIC PARTNERS

5 Registered domestic partners are not married persons, and therefore each partner is an individual
 6 claimant under section 69.5. Because of this, an unqualified registered domestic partner cannot
 7 make a claim based on the eligibility of his or her registered domestic partner who is qualified to
 8 make a claim. For example, a registered domestic partner, who is not yet aged 55, may not make
 9 a claim based on the fact that his or her registered domestic partner is over age 55.

10 However, if two registered domestic partners purchase a replacement dwelling and one partner
 11 uses the base year value transfer, the other partner is not considered a claimant and is eligible to
 12 transfer the base year value another time.

13 *Example 14-4*

14 B and C, registered domestic partners both over the age of 55, sell their principal place of
 15 residence and purchase another residence. B files to transfer the base year value under
 16 section 69.5. Only B is considered the claimant.

17 Subsequently, B and C sell the replacement dwelling (which is their new original property)
 18 and buy another replacement dwelling. C may file a claim for transfer of the base year value
 19 of the second replacement dwelling since he was not considered a claimant because of B's
 20 claim.

21 TIMING

22 A replacement dwelling must be purchased or newly constructed within *two years* (before or
 23 after) of the sale of the original property.³²⁰ If a replacement dwelling is, in part, purchased and,
 24 in part, newly constructed, the completion of new construction must occur within two years of
 25 the sale of the original property, regardless of when the land is purchased.

26 Because this two-year period is part of the California Constitution, there are no exceptions or
 27 time extensions under any circumstances. In other words, no extensions can be granted for the
 28 two-year period, even if the delays are due to unforeseen circumstances beyond the claimant's
 29 control.

30 ELIGIBLE PROPERTY

31 An *original property* and a *replacement dwelling* are defined as:³²¹

³²⁰ Section 69.5(b)(5).

³²¹ Section 69.5(g)(3) and (g)(4).

- 1 • A building, structure, or other shelter constituting a place of abode, whether real property
2 or personal property that is owned and occupied by a claimant as his principal place of
3 residence.
- 4 • Any land owned by the claimant on which the building, structure, or other shelter is
5 situated.

6 An eligible property includes the land owned by the claimant of a reasonable size on which the
7 dwelling is situated. *Reasonable size* includes **all** land if any nonresidential uses of the property
8 are only incidental to the use of the property as a residential site. Land also includes:

- 9 • A leasehold interest under section 61(c).
- 10 • A land purchase contract.
- 11 • An ownership interest in a resident-owned mobilehome park that is assessed pursuant to
12 section 62.1(b).

13 Purposes that are incidental to the use of the property as a residential site must be minor in
14 nature. For example, boarding a horse, selling dairy or produce, or operating a home-based
15 business out of a part of the house would be considered incidental to the use of the property as a
16 residence. A farm or ranch operation, on the other hand, is not minor in nature because the farm
17 or ranch is the primary use of the property and the home is incidental. Because of the potential
18 for a variety of uses of property for nonresidential purposes, county assessors will need to
19 exercise judgment in determining the types and extent of uses they determine to be incidental.

20 ***Example 14-5***

21 X sold a home located on a 7,500 square foot lot and replaced it with a home located on a
22 20-acre parcel. As long as the 20-acre parcel was used only for purposes incidental to the use
23 as a residential site, the base year value of the original property could be transferred to the
24 entire 20-acre parcel as a qualified replacement dwelling.

25 The converse would also be true. If Y sold a home on a 20-acre parcel and purchased a home
26 located on a 7,500 square foot lot, the 20-acre parcel and the home could qualify as the
27 original property, assuming any nonresidential uses of the 20-acre parcel were merely
28 incidental to the use as a residential site.

29 Many types of residential property, not just single-family homes, can qualify as original
30 properties or replacement dwellings. An eligible property includes a unit or lot within a
31 cooperative housing corporation, a community apartment project, a condominium project, or a
32 planned unit development.³²² Additionally, a manufactured home may also qualify as an eligible
33 property.³²³

³²² Section 69.5(c)(1).

³²³ Section 69.5(c)(2).

1 **RESTRICTED PROPERTY**

2 Land that is enforceably restricted by a *Williamson Act* contract (open-space lands) is assessed
 3 under article XIII, section 8, of the California Constitution, and sections 421 et seq. These
 4 special valuation provisions do not apply, however, to a residence or land of reasonable size that
 5 is used as a site for the residence.³²⁴ Instead, a residence and its underlying land are assessed
 6 under article XIII A (Proposition 13) and, thus, is eligible for the base year value transfer under
 7 section 69.5.

8 Similarly, property restricted to *timberland use* is excluded from the provisions of article XIII A
 9 and instead is valued under the Timber Yield Tax Law. However, property not subject to
 10 valuation under the Timber Yield Tax Law within a timberland production zone (TPZ), such as a
 11 residence or land of reasonable size that is used as a site for the residence is to be valued
 12 according to the provisions of Proposition 13.³²⁵ Thus, if TPZ property is sold that includes a
 13 residence, the residence and its underlying land is eligible for the base year value transfer under
 14 section 69.5.

15 A historical property that is enforceably restricted by a *Mills Act* contract is annually valued
 16 under sections 439 et seq. Annually, the restricted value is compared to the adjusted base year
 17 value and the current market value because section 439.2(d) provides that the restricted valuation
 18 cannot exceed a valuation under either section 110 or 110.1. When a Mills Act property is sold, a
 19 county assessor is required to reappraise an enforceably restricted historical property at its
 20 current fair market value and establish a new base year value. Thus, a residential property
 21 enforceably restricted by a Mills Act contract may qualify as either an original property or a
 22 replacement dwelling.

23 **SALE AND PURCHASE REQUIREMENTS**

24 To qualify for a base year value transfer, an original property must be sold and a replacement
 25 dwelling must be purchased or newly constructed.³²⁶ *Sale* is defined as any change in ownership
 26 of the original property for consideration.³²⁷ Similarly, *purchase* is also defined as a change in
 27 ownership for consideration.³²⁸

28 *Change in ownership* means that the transaction results in a reappraisable event and is not
 29 excluded under sections 62 through 68.

30 *Consideration* is something of value that is exchanged for the property. Consideration is not
 31 limited to the payment of cash; it could include the exchange of other property, the assumption
 32 of a debt, the cancellation of an outstanding debt, or the creation of a debt. Further, nothing
 33 requires that the consideration be equivalent to the fair market value of the property transferred.
 34 While the transfer of property for nominal value may be questioned, the term purchase could

³²⁴ Section 428

³²⁵ Section 435(c).

³²⁶ Section 69.5(b)(5).

³²⁷ Section 69.5(g)(8).

³²⁸ Section 67.

1 include a transfer for some substantial consideration even though the value of that consideration
2 may be less than the full cash value of the property received.

3 ***Example 14-6***

4 J and S each solely own their own residence. After they marry, S sells her solely owned
5 property and purchases J's property. S files a claim to transfer her old base year value to her
6 newly-acquired property.

7 S's purchase of J's property is not a change in ownership because it is a transfer between
8 spouses, which is excluded from reappraisal.³²⁹ Since a transfer between spouses is
9 automatically excluded from change in ownership as a matter of law, a claimant cannot
10 choose between sections 63 and 69.5. Because S's purchase did not result in a change in
11 ownership, she may not transfer her old base year value to her newly-acquired property.

12 In addition, the sale of the original property must be a transaction constituting a change in
13 ownership that results in either:

- 14 1. A reappraisal at its current full cash value in accordance with sections 110.1 or 5803; or
- 15 2. Receipt of a base year value transferred from another property under the provisions of
16 section 69 (intracounty disaster relief), section 69.3 (intercounty disaster relief), or
17 section 69.5 (principal residence).

18 A base year value cannot be transferred if an original property is sold to a governmental entity
19 (for example, a county redevelopment agency) and becomes exempt as government-owned
20 property.

21 While section 69.5 requires that the original property be *sold*, it makes no restrictions as to how
22 the original property was acquired. Thus, the fact that the claimant may have acquired the
23 original property by gift, inheritance, or devise or in a transaction excluded from change in
24 ownership will not affect that claimant's ability to transfer the original property's base year value
25 when the property is sold.

26 ***Example 14-7***

27 Husband H and his wife W are living in a home which W inherited from her mother. The
28 home is W's sole and separate property. W wishes to sell the property and transfer its base
29 year value to a new property that H and W purchase. H is 60 and W is 53.

30 W is an eligible claimant because H is over age 55 at the time of the sale of the original
31 property and resides with her in the original property. The fact that W inherited the original
32 property and owns it as her sole and separate property is not a disqualifying factor.

³²⁹ Section 63.

1 A replacement dwelling must be purchased or newly constructed within two years of the sale of
 2 the original property. Thus, relief under section 69.5 is unavailable if a replacement dwelling is,
 3 in whole or in part:

- 4 • Acquired in a transaction that is excluded from change in ownership; or
- 5 • Received by gift, inheritance, or devise.

6 Examples of transfers that are excluded from change in ownership, and thus are ineligible for
 7 section 69.5 relief include:

- 8 • Transfers between spouses and registered domestic partners.
- 9 • Transfers between parents and children for which claims were filed and granted.

10 **PRINCIPAL RESIDENCE REQUIREMENTS**

11 To qualify for relief under section 69.5, both the original property and the replacement dwelling
 12 must be eligible for either the homeowners' or disabled veterans' exemption.³³⁰ This means a
 13 claimant must both own the property and occupy it as a principal residence. A principal
 14 residence is a person's true, fixed, and permanent home and principal establishment to which the
 15 owner, whenever absent, intends to return.

16 A homeowners' or disabled veterans' exemption does not need to actually have been granted. If
 17 an exemption has not been granted, the claimant must prove that the property is eligible for such
 18 exemption. Proof of residency may include vehicle registration, voter registration, bank
 19 accounts, or income tax records.

20 The original property must be eligible for the homeowners' or disabled veterans' exemption as of
 21 one of the following dates:³³¹

- 22 1. At the time of the sale.
- 23 2. Within two years of the purchase or new construction of a replacement dwelling.
- 24 3. At the time when the original property was substantially damaged or destroyed by
 25 misfortune or calamity.

26 The replacement dwelling must be eligible for the homeowners' or disabled veterans' exemption
 27 when the claim is filed.³³²

28 **EQUAL OR LESSER VALUE REQUIREMENT**

29 A replacement dwelling must be of *equal or lesser value* than the original property. This is also
 30 referred to as the value equivalency test or requirement. To make this determination, the full cash

³³⁰ Section 69.5(b)(2) [original property] and (b)(4) [replacement dwelling].

³³¹ Section 69.5(b)(2) and (g)(3).

³³² Section 69.5(b)(4).

1 value of the original property as of the date of its sale must be compared with the full cash value
2 of the replacement dwelling as of its date of purchase or completion of new construction.

3 **FULL CASH VALUE OF ORIGINAL PROPERTY**

4 The *full cash value of the original property* is defined as:

- 5 1. The new base year value determined under subdivision (e) of section 69.5; or
- 6 2. Where an owner chooses not to rebuild on the original property after it has been
7 substantially damaged or destroyed by misfortune or calamity, the property's full cash
8 value determined under section 110 (fair market value) immediately prior to such damage
9 or destruction.³³³

10 The full cash value of the original property includes any inflationary factoring that occurs
11 between the sale of the original property and the purchase of the replacement dwelling, if the
12 replacement dwelling is purchased or newly constructed after the sale of the original property.³³⁴

13 **FULL CASH VALUE OF REPLACEMENT DWELLING**

14 The *full cash value of a replacement dwelling* is its full cash value, determined in accordance
15 with section 110.1, as of date of purchase or the date of completion of new construction.³³⁵

16 If the replacement dwelling is, in part, purchased and, in part, newly constructed, the date on
17 which it was purchased or newly constructed is the later of either (1) the date of purchase or (2)
18 the date of completion of construction.³³⁶

19 **VALUE COMPARISON**

20 Section 69.5 provides that a replacement dwelling is of *equal or lesser value* if its full cash value
21 does not exceed:³³⁷

- 22 • **100 percent** of the full cash value of the original property if the replacement dwelling is
23 purchased or newly constructed *prior to* the date of the sale of the original property.
- 24 • **105 percent** of the full cash value of the original property if the replacement dwelling is
25 purchased or newly constructed *within the first year* following the date of the sale of the
26 original property.
- 27 • **110 percent** of the full cash value of the original property if the replacement dwelling is
28 purchased or newly constructed *within the second year* following the date of the sale of
29 the original property.

³³³ Section 69.5(g)(7).

³³⁴ Section 110.1(f).

³³⁵ Section 69.5(g)(6).

³³⁶ Section 69.5(g)(5).

³³⁷ Section 69.5(g)(5)(A) through (5)(C).

1 The relief granted under section 69.5 is all or nothing. If the full cash value of the entire
 2 replacement dwelling exceeds the applicable limit, then none of it will qualify for a base year
 3 value transfer. There is no partial base year value transfer.

4 ***Example 14-8***

5 G sold her personal residence for \$500,000 and purchased a single-family residence for
 6 \$1,000,000. G does not qualify for a base year value transfer from the sold residence to a
 7 portion of the purchased residence.

8 ***Example 14-9***

9 T and J sell their respective personal residences for \$800,000 each. Together they purchase a
 10 single-family residence for \$1,500,000 with each receiving title as tenancy in common as to
 11 an undivided one-half interest. The values of the two sold properties cannot be combined.
 12 Neither T nor J will qualify to transfer their base year value because \$1,500,000 is greater
 13 than \$800,000.

14 If the sale of an original property and the purchase of a replacement dwelling are both recorded
 15 on the same day, the full cash value of replacement dwelling must not exceed 100 percent of the
 16 full cash value of the original property.³³⁸ The 105 percent provision requires that the
 17 replacement dwelling be purchased within the first year *following* the date of the sale of the
 18 original property, indicating that the replacement dwelling must be purchased at least one day
 19 after the sale of the original property to qualify.³³⁹

20 **MISCELLANEOUS ISSUES**

21 **MANUFACTURED HOME**

22 A base year value may be transferred from a manufactured home as an original property to a
 23 replacement dwelling, but only if the manufactured home is assessed on the local roll. If the
 24 manufactured home is not assessed on the local roll, it has no base year value to transfer. In
 25 addition, an original property must be subject to reassessment under either section 110.1 or
 26 section 5803, unless a base year value is being transferred to it under sections 69, 69.3, or 69.5.
 27 A licensed manufactured home³⁴⁰ is not subject to reappraisal upon a change in ownership.

28 However, a licensed manufactured home may be a replacement dwelling if it sits on a lot owned
 29 by the claimant. However, only the land on which the licensed manufactured home is located
 30 (and any miscellaneous improvements taxed as real property) will receive the base year value.
 31 The original property's base year value should not exceed the market value of the replacement
 32 dwelling land (and miscellaneous improvements).

33 In the situation where a licensed manufactured home is converted to the local property tax after a
 34 claim is approved transferring the base year value to the land only, upon the conversion the

³³⁸ Section 69.5(g)(5)(A).

³³⁹ Section 69.5(g)(5)(B).

³⁴⁰ Vehicle license fee administered by the California Department of Motor Vehicles.

1 manufactured home would then be eligible for section 69.5 benefits. Any unallocated portion of
 2 the base year value of the original property can be applied to the manufactured home as of the
 3 lien date following the date of conversion. The conversion does not have to occur within two
 4 years of the sale of the original property in order for the manufactured home to be eligible.

5 When either the original property or the replacement dwelling is a manufactured home in a
 6 mobilehome park (on leased land), the base year value may be reallocated based on the land-
 7 improvement ratio of the replacement dwelling's full cash value.

8 **Example 14-9**

9 M sells a manufactured home (no lot) that is assessed on the local roll in January 2007. In
 10 March 2007, she acquires a conventional house and lot as a replacement dwelling. Both the
 11 original property and the replacement dwelling have a full cash value of \$70,000.

12 The base year value may be transferred from the manufactured home to the new home,
 13 assuming M is otherwise qualified. The equal or lesser value test has been met since the full
 14 cash value of the replacement dwelling is less than 105 percent of the full cash value of the
 15 original property. The factored base year value of the manufactured home should be
 16 transferred to the house and lot, maintaining the same ratio for land and improvements as
 17 reflected in the full cash value of the replacement dwelling.

| | Factored Base Year Value | Full Cash Value as of Jan 2007 | Full Cash Value as of Mar 2007 | Ratio Land and Improvements to Total Property | Allocation of FBYV to Replacement Dwelling |
|--|---|---|---|--|---|
| Original Property (Manufactured Home) | \$35,000 | \$70,000 | N/A | N/A | |
| Replacement Dwelling | N/A | N/A | \$70,000 | | \$35,000 |
| House and Lot | | | \$20,000 L \$50,000 I | .29 x \$35,000 .71 x \$35,000 | = \$10,150 = \$24,850 |

18

19 **Example 14-10**

20 P sells a single-family residence and acquires a manufactured home (no lot) on the local
 21 property tax roll in January 2007.

22 The entire base year value of the single-family residence, not just the improvement value,
 23 could be moved to the manufactured home to the extent that it does not exceed the fair
 24 market value of the manufactured home and any miscellaneous improvements as of the date
 25 of purchase.

| | Factored Base Year Value | Full Cash Value as of Jan 2007 | Full Cash Value as of Mar 2007 | Allocation of FBV to Replacement Dwelling |
|---|---------------------------------|---------------------------------------|---------------------------------------|--|
| Original Property (house and lot) | \$35,000 | \$170,000 | N/A | |
| Replacement Dwelling (manufactured home only) | N/A | N/A | \$70,000 | \$35,000 |

1 **Example 14-11**

2 B's single-family residence, with a base year value of \$120,000, sold for \$450,000. B
3 purchased a manufactured home and a pro rata interest in a resident-owned mobilehome park
4 for \$300,000

5 The factored base year value of the original property should be reallocated because the
6 factored base year value of the original property improvement exceeds the fair market value
7 of the replacement manufactured home. The allocation of the factored base year value should
8 be based on the land-improvement ratio of the replacement dwelling's full cash value.

| | Factored Base Year Value | Full Cash Value as of Sale | Full Cash Value as of Purchase | Ratio Land and Improvements to Total Property | Allocation of FBV to Replacement Dwelling |
|--|--|-----------------------------------|---------------------------------------|--|--|
| Original Property (house and lot) | \$ 47,500 L <u>\$142,500 I</u> \$190,000 | \$450,000 | | | |
| Replacement Dwelling | | | \$300,000 | | \$190,000 |
| Manufactured home and pro rata interest in park entity | | | \$175,000 L \$125,000 I | .58 x \$190,000 .42 x \$190,000 | = \$110,200 = \$79,800 |

9

10 **MULTI-UNIT DWELLING**

11 Each unit of a multi-unit dwelling is considered to be a separate property.³⁴¹ Examples of a multi-
12 unit dwelling would include a duplex, triplex, two residences on a lot, a cooperative housing
13 corporation, etc. Thus, the base year value from one unit of a duplex may be transferred to a
14 replacement dwelling if the fair market value of the replacement dwelling is equal to or less than
15 the fair market value of one unit of the duplex.

16 The same would be true of any multiple-unit residences, such as condominiums or triplexes.

³⁴¹ California Constitution, article XIII A, section 2(a); section 69.5(g)(3) and (4).

1 If an original property includes a separate living unit that is used as a rental, the full cash value of
 2 the entire property would be allocated between the principal residence and the rental unit. A unit
 3 may be considered separate from the principal residence if it has its own kitchen, bathroom
 4 facilities, and entrance and is used for purposes incompatible with the homeowners' exemption.
 5 Where there is a separate living unit that is not considered part of the principal residence, only
 6 the full cash value of the principal residence would be compared to the full cash value of the
 7 replacement dwelling. In addition, the factored base year value would be allocated between the
 8 principal residence (and land) and the separate unit (including land) so that only the base year
 9 value of the principal residence is transferred to the replacement dwelling.

10 However, where a separate unit is used in a manner that is compatible with the homeowners'
 11 exemption, the unit may be considered a part of the original property. For example, an apartment
 12 or guest house that was not rented but was instead used intermittently by guests or family
 13 members, may be considered part of a principal residence.

14 ***Example 14-12***

15 M and P, a married couple both over the age of 55, own a home with an apartment over the
 16 garage. The apartment was never rented but rather was used occasionally by guests and
 17 family members. The apartment was also eligible for the homeowners' exemption. M and P
 18 sell their home and file a claim to transfer their base year value.

19 Since the apartment over the garage was considered as part of the principal residence and
 20 there was no evidence that M and P executed a lease or otherwise used the apartment for
 21 purposes incompatible with the homeowners' exemption, the entire property (residence and
 22 apartment) would be considered in the value test for the section 69.5 benefits. Thus, the base
 23 year value of the entire original property may be transferred to their replacement dwelling.

24 **MULTIPLE OWNERS OF ORIGINAL PROPERTY AND/OR REPLACEMENT DWELLING**

25 A section 69.5 base year value transfer is available to a claimant who is a co-owner of an original
 26 property, held as joint tenants, tenancy in common, or community property, subject to the
 27 following limitations:

- 28 1. If all the co-owners purchase or newly construct a single replacement dwelling in which
 29 each co-owner retains an interest, a claimant is eligible for relief whether or not any of
 30 the others are eligible claimants.
- 31 2. If two eligible co-owners sell an original property and each acquire a separate
 32 replacement dwelling, only one may qualify to transfer a base year value. The co-owners
 33 must decide by mutual agreement which one of them will receive the property tax relief.
- 34 3. If spouses who owned the original property as community property separately purchase
 35 or newly construct two or more replacement dwellings, only the spouse who is 55 or
 36 older, or who is severely and permanently disabled, is eligible for the base year value

1 transfer. If both spouses are over 55 years of age, only one of them may transfer the base
2 year value and they must mutually agree which one of them will receive the relief.³⁴²

3 In the case of co-owners of a multiple-unit original property, the limitations imposed by
4 paragraphs (2) and (3) above only apply to those co-owners who live in the same dwelling
5 unit.³⁴³ However, when co-owners of a multiple-unit original property qualify for separate
6 homeowners' exemptions (for example, they reside in different units, each occupying one-half of
7 a duplex owned jointly), each unit is to be treated separately³⁴⁴ and each portion of the base year
8 value of the original property may be transferred to a different qualified replacement dwelling.
9 Thus, when two otherwise eligible co-owners sell a duplex in which each person occupies one
10 side, each may acquire a replacement dwelling and qualify for relief. The value comparison is
11 made between their respective portions of the original property (each side of the duplex) and
12 their respective replacement dwellings.

13 **FRACTIONAL INTERESTS IN PROPERTY**

14 Section 69.5 treats an original property and a replacement dwelling as appraisal units and does
15 not contemplate the sale or purchase of fractional interests. The only exception is a multi-unit
16 property.

17 If a claimant sells an original property in increments, all increments must be sold within two
18 years of the date of purchase or completion of construction of the replacement dwelling.
19 Similarly, if the replacement dwelling is purchased in increments, all transactions must occur
20 within two years of the sale of the original property.

21 ***Example 14-13***

22 D purchases 50 percent of a residence in November 2007. In April 2008 D purchases the
23 other 50 percent. D sells his original property in June 2009. Since the residence was
24 purchased in its entirety within two years of the sale of the original property, it may qualify
25 for the base year value transfer.

26 ***Example 14-14***

27 In 1995, two brothers, B and T, purchased a residence as joint tenants. In 2006, B sold his
28 primary residence, purchased T's 50 percent interest, and filed a claim to transfer the base
29 year value. B cannot transfer his base year value because half the interest was purchased
30 more than two years before the sale of his original property.

31 If a claimant owns only a partial interest in either the original property or the replacement
32 dwelling, the equal or lesser value requirement is tested by comparing the values of the entire
33 properties. However, the entire original property must be sold within the applicable time limits in
34 order to qualify for the base year value transfer. A transfer that results in only a partial

³⁴² Section 69.5(d)(1) through (d)(3).

³⁴³ Section 69.5(d)(3).

³⁴⁴ Section 69.5(g)(3) and (g)(4).

1 reappraisal of either the original property or the replacement dwelling is ineligible for the base
2 year value transfer.

3 ***Example 14-15***

4 M, who is over age 55, sold her original property for \$750,000. Two months later, M and
5 daughter D purchased a single family residence for \$700,000. M can transfer her base year
6 value to the replacement dwelling because she is an owner and occupies it as her primary
7 residence. The fact that her daughter is also on title does not affect her ability to transfer the
8 base year value to the entire replacement dwelling.

9 **ADDITIONAL NEW CONSTRUCTION**

10 Where a claim to transfer the base year value has been timely filed and granted, and
11 subsequently new construction is performed on the replacement dwelling, the new construction
12 can be included in the base year value that was transferred if:

- 13 • The new construction is completed within two years of the date of sale of the original
14 property;
- 15 • The owner notifies the county assessor in writing within 30 days after completion of the
16 new construction; and
- 17 • The full cash value of the new construction on the date of completion, plus the full cash
18 value of the replacement dwelling on the date of acquisition, is equal or less than the full
19 cash value of the original property.³⁴⁵ This comparison does not include the 5 or 10
20 percent time increase used for the value comparison test.

21 However, if the replacement dwelling is demolished and a new home is built in its place, it is
22 possible that the full cash value of the replacement dwelling (land and residence) on the date of
23 purchase plus the full cash value of the newly constructed home would exceed the full cash value
24 of the original property on the date of sale. In that case, the transferred base year value of the
25 land would remain, the base year value of the demolished residence would be removed from the
26 assessment roll, and the new home would be assessed at current market value as new
27 construction.

28 **DAMAGED OR DESTROYED ORIGINAL PROPERTY**

29 If an original property was substantially damaged or destroyed by misfortune or calamity and
30 sold in its damaged state, its base year value may be transferred to a replacement dwelling under
31 certain circumstances. An original property is *substantially damaged or destroyed by misfortune*
32 *or calamity* if it sustains physical damage amounting to more than 50 percent of its full cash
33 value immediately prior to the misfortune or calamity. *Damage* includes a diminution in the
34 value of property as a result of restricted access to the property where the restricted access was
35 caused by the misfortune or calamity and is permanent in nature.³⁴⁶

³⁴⁵ Section 69.5(h)(4).

³⁴⁶ Section 69.5(g)(13).

1 The damage or destruction does not have to be caused by a disaster that resulted in a Governor-
 2 proclaimed state of emergency. *Disaster, misfortune, or calamity* is some event out of the
 3 ordinary; an unforeseeable, sudden, or unusual occurrence; in contrast to gradual deterioration or
 4 worsening condition over time. Damage to a building or land that occurs gradually due to
 5 ordinary natural forces is not caused by disaster, misfortune, or calamity.³⁴⁷

6 The date of misfortune or calamity does not have to meet the two-year requirement that
 7 otherwise applies under section 69.5. However, the sale of the original property in its damaged
 8 state must have occurred within two years of the purchase or new construction of the
 9 replacement dwelling and within the timeframe of the proposition under which relief is sought in
 10 order to qualify for relief.³⁴⁸

11 If an original property was substantially damaged or destroyed by misfortune or calamity and
 12 sold in its damaged state, the value to use in the value comparison test is the full cash value as of
 13 the date immediately prior to the misfortune or calamity. The base year value to transfer is the
 14 base year value immediately prior to the misfortunate or calamity, plus inflationary adjustments.

15 FILING REQUIREMENTS

16 The property tax relief provided by section 69.5 is not automatic. To transfer a base year value, a
 17 claimant must file a claim with the assessor of the county in which the replacement dwelling is
 18 located. If a spouse of the claimant is a record owner of the replacement dwelling, the spouse
 19 must also be listed on the claim.³⁴⁹ Ownership and occupation of the replacement dwelling as a
 20 principal residence is a prerequisite to filing the claim.

21 *Example 14-16*

22 Mrs. Brown sold her property and moved to another state. Two years later she purchased a
 23 replacement dwelling in California, but continued to live outside the state. She filed a claim
 24 for base year value transfer of her original property in California in anticipation of moving
 25 into the replacement dwelling.

26 The county assessor properly denied Mrs. Brown's claim as she did not occupy the
 27 replacement dwelling as her principal place of residence at the time the claim was filed.

28 However, nothing in section 69.5 precludes a taxpayer from re-filing once all the
 29 qualifications are met. As long as the claim is filed within three years of the sale of the
 30 original property and all other requirements are met, the relief will extend to the entire period
 31 from the date of the filing of the claim back to the date provided in subdivision (h)(1), even if
 32 the claimant did not occupy the replacement dwelling until the time that the claim was
 33 re-filed.

³⁴⁷ *T.L. Enterprises, Inc. v. Los Angeles County* (1989) 215 Cal.App.3d 876.

³⁴⁸ See Section 69.5(j) for effective dates.

³⁴⁹ Section 69.5(f).

1 In addition to filing the claim, proof of age or disability must be provided. If a spouse who
 2 resides with the claimant is the age or disability qualifier but is not a record owner of the
 3 replacement dwelling, the spouse should be prepared to provide proof of eligibility. Proof
 4 includes:

5 *Age* – a driver's license, birth certificate, or other legal document that contains a birth date.

6 *Severe and permanent disability* – a certification, signed by a licensed physician or surgeon
 7 of appropriate specialty, attesting to the claimant's severely and permanently disabled
 8 condition.³⁵⁰

9 A severely and permanently disabled claimant must identify the reason for the move—to
 10 accommodate the disability or to alleviate the financial burden caused by the disability. In
 11 addition to the proof of disability, a severely and permanently disabled claimant must also
 12 submit either of the following:

- 13 • A certification signed by a licensed physician or surgeon that (a) identifies specific
 14 reasons why the disability necessitates a move to the replacement dwelling, and (b) sets
 15 forth the disability related requirements of the replacement dwelling, along with a
 16 substantiation by claimant that the replacement dwelling meets those requirements and
 17 that the primary reason for the move is to satisfy such requirements.³⁵¹
- 18 • Proof that substantiates that the primary purpose of the move to the replacement dwelling
 19 is to alleviate financial burdens caused by the disability. A declaration under penalty of
 20 perjury by the claimant, claimant's spouse, or claimant's guardian can be used to establish
 21 a rebuttable presumption of the primary purpose of the move.³⁵²

22 **FILING PERIOD**

23 If a claim is filed within **three years** of the date a replacement dwelling was purchased or
 24 construction of a replacement dwelling was completed, it is considered timely.³⁵³

25 If a timely claim is filed and the base year value transfer is approved, the adjusted base year
 26 value of the replacement dwelling is transferred as of the *latest* of the following dates:

- 27 • The date the original property is sold;
- 28 • The date the replacement dwelling is purchased; or
- 29 • The date the new construction of the replacement dwelling is completed.³⁵⁴

³⁵⁰ Section 69.5(f)(1)(B).

³⁵¹ Section 69.5(f)(1)(B)(i).

³⁵² Section 69.5(f)(1)(B)(ii).

³⁵³ Section 69.5(f)(1)(F).

³⁵⁴ Section 69.5(h)(1).

1 **Example 14-17**

2 T was over age 55 when she sold her original property in March 2004 and purchased a
3 replacement dwelling in April 2004. However, she rented an apartment from March 2004
4 through December 2004, and did not begin occupying the replacement dwelling as her
5 principal residence until January 2005. In February 2005, T filed a claim to transfer her base
6 year value to the replacement dwelling.

7 Relief should be granted dating back to the date of the purchase of the replacement dwelling
8 in April 2004.

9 **Example 14-18**

10 If C purchases a replacement dwelling when C turns 55 but does not sell his original property
11 until 18 months later, C will be responsible for the full amount of property taxes based on the
12 replacement dwelling's fair market value on the date of purchase until the date of sale. The
13 base year value cannot be transferred until the original property is sold. No refund of tax
14 paid with respect to the replacement dwelling is available for the period between the date of
15 purchase of the replacement dwelling and the date of sale of the original property.

16 If an original property had a Proposition 8 value (current market value) or a restricted value
17 (open space or historical property) enrolled at the time of sale, the value to transfer is the original
18 property's adjusted base year value, and not the Proposition 8 or restricted value.³⁵⁵

19 **PROSPECTIVE RELIEF**

20 Effective January 1, 2007, if the three-year claim filing deadline is missed, base year value
21 transfers may be granted on a prospective basis if all other requirements are satisfied and the
22 replacement dwelling has not been transferred to a third party.³⁵⁶

23 A claimant is eligible for prospective relief beginning with the lien date of the assessment year in
24 which the claim is filed.³⁵⁷ No refunds or cancellation of taxes paid for prior years are available.

25 **Example 14-19**

26 Z sold an original property and purchased a qualifying replacement dwelling in 2002, but
27 never filed a claim to transfer the base year value. If Z filed a claim in 2008, Z may get relief
28 beginning with the 2008 lien date (January 1, 2008) for the 2008-09 fiscal year. Z will not
29 receive any refunds or cancellation of taxes paid for the 2007-08 fiscal year or any prior
30 years.

31 The value of the replacement dwelling for the assessment year in which the claim is filed is the
32 adjusted base year value of the original property on the roll when it was sold, factored forward
33 for inflation to the claim year.³⁵⁸ The adjusted base year value of any new construction on the

³⁵⁵ Section 69.5(g)(2); sections 110.1(a) and (f).

³⁵⁶ Section 69.5(f)(1)(F)(2).

³⁵⁷ Section 69.5(f)(1)(F)(2)(A).

³⁵⁸ Section 69.5(f)(1)(F)(2)(B).

1 replacement dwelling completed between the date of purchase and the date prospective relief is
2 granted must also be added to the transferred base year value.

3 The prospective relief provision applies only to the three-year claim filing period. It does not
4 apply to a missed 30-day notice period for the completion of new construction after a transfer of
5 base year value for a replacement dwelling that was purchased.

6 If a claim for prospective relief is filed in a county that no longer has an ordinance allowing
7 intercounty transfers of base year values, the claim for prospective relief should still be granted if
8 the ordinance was in effect at the time the base year value transfer occurred.

9 **DENIAL OF A CLAIM AND PURCHASE OF ANOTHER REPLACEMENT DWELLING**

10 If a claim is denied, a taxpayer may file a claim for the transfer of a base year value to another
11 replacement dwelling.³⁵⁹ However, the second replacement dwelling must also meet all the
12 requirements of section 69.5 (for example, it must be purchased within two years of the sale of
13 the original property). There are no exceptions or time extensions under any circumstances.

14 ***Example 14-20***

15 In July 2007, J purchased a home that had a full cash value of \$250,000. J expected that his
16 original property would sell for at least the same amount, and then he would file a claim to
17 transfer her base year value. However, due to a slow real estate market, his original property
18 finally sold in June 2009 for only \$220,000.

19 J's claim to transfer the base year value was denied by the county assessor because the full
20 cash value of the replacement dwelling exceeded the full cash value of the original property.
21 However, since the first property that J purchased failed the value equivalency test, J did not
22 use his one-time-only benefit and is not precluded from finding a qualifying replacement
23 dwelling. J has two years from the sale of his original property in June 2009 to acquire a
24 qualifying property.

25 **CLAIM IS CONFIDENTIAL**

26 A claim for transfer of base year value under section 69.5 is not a public document and not
27 subject to public inspection. A claim may only be inspected by:³⁶⁰

28 ...the claimant or the claimant's spouse, the claimant's or the claimant's spouse's
29 legal representative, the trustee of a trust in which the claimant or the claimant's
30 spouse is a present beneficiary, and the executor or administrator of the claimant's
31 or the claimant's spouse's estate.

³⁵⁹ See the Board's *Assessment Appeals Manual*, and Publication 30, *Residential Property Assessment Appeals*, for further information on assessment appeals.

³⁶⁰ Section 69.5(n).

1 **RESCINDING A CLAIM**

2 There are two circumstances under which a claim may be rescinded, thereby allowing the base
3 year value of an original property to be transferred to a different replacement dwelling. Effective
4 September 30, 1990, a section 69.5 claim may be rescinded if the following conditions have been
5 met.³⁶¹

- 6 1. A written notice of rescission, signed by the original claimant(s), is given to the county
7 assessor's office where the claim was filed; and
- 8 2. If the original claim would have resulted in a refund, the notice is delivered to the county
9 assessor's office *before* the date the county first issues a refund check. If a refund is not
10 applicable, the notice must be delivered *before* any property taxes are paid on the new
11 transferred base year value. If taxes have not been paid, the notice must be delivered
12 *before* any property taxes on the new transferred base year value become delinquent.

13 If either of these conditions is not met, then the claim cannot be rescinded, and the base year
14 value will remain with the first replacement dwelling.

15 Effective January 1, 2001, a section 69.5 claim may also be rescinded if *both* of the following
16 conditions have occurred.³⁶²

- 17 1. The claimant vacated the replacement dwelling as his or her principal place of residence
18 within 90 days after the original claim was filed regardless of whether the property
19 continues to receive the homeowners' exemption; and
- 20 2. A notice of rescission, signed by the original claimant(s), is delivered to the office of the
21 county assessor within six years after relief was granted.

22 If either of these conditions is not met, the transferred base year value remains with the first
23 replacement dwelling.

24 ***Example 14-21***

25 Perry sold an original property and transferred the base year value to a qualified replacement
26 dwelling. After moving in, major structural problems were discovered which rendered the
27 replacement dwelling partially uninhabitable. The builder was unable to correct the
28 problems. A court ordered a rescission of the purchase. Perry purchased a second
29 replacement dwelling and filed a claim to transfer the base year value from his original
30 property.

31 In this situation, timing is critical. Either (1) a notice of rescission must be given to the
32 county assessor before the date the county first issues a refund check or before property taxes
33 based on the new transferred value are paid or, if unpaid, before the taxes become delinquent;
34 or (2) the claimant must vacate the replacement dwelling within 90 days of filing the claim

³⁶¹ Section 69.5(i)(2)(A).

³⁶² Section 69.5(i)(2)(B).

1 and a notice of rescission must be given to the county assessor within six years. In addition,
2 regardless of the fact that a court rescinded the purchase, any new replacement dwelling must
3 be purchased within two years of the sale of the original property and must meet the value
4 equivalency requirement in order to qualify for relief.

5 If a claim is successfully rescinded, the taxpayer may purchase or construct another replacement
6 dwelling and file a claim to transfer the base year value to that property. However, the second
7 replacement dwelling must also meet all the requirements of section 69.5 (for example, it must
8 be purchased within two years of the sale of the original property). There are no exceptions or
9 time extensions under any circumstances.

CHAPTER 15: GOVERNMENT ACQUISITION OF PROPERTY

Proposition 3, approved by the voters on June 8, 1982, amended article XIII A by adding subdivision (d) to section 2. This provides that change in ownership does not include:

...the acquisition of real property as a replacement for comparable property if the person acquiring the real property has been displaced from property in this state by eminent domain proceedings, by acquisition by a public entity, or by governmental action which has resulted in a judgment of inverse condemnation.

This is implemented by section 68 and Property Tax Rule 462.500.

Displaced means a property owner is removed, expelled, or forced from property due to governmental action.³⁶³

Replacement property may be located in any California county. Intercounty transfers do not require a local authorizing ordinance.

ELIGIBLE PROPERTY

Property taken is defined as the real property taken or acquired by:

- Eminent domain proceedings instituted by an entity so authorized;
- A public entity; or
- Governmental action resulting in a judgment of inverse condemnation.³⁶⁴

Entities authorized by statute may include such public utilities as a telephone company or an electric company.

Real property includes land, land improvements, living improvements, manufactured homes, and fixed machinery and equipment. This base year value transfer does not apply to personal property.³⁶⁵ A replacement property is not limited to a single parcel.

COMPARABILITY

Replacement property acquired by a person displaced by government action is deemed to be comparable to the property taken if it is similar in size, utility, and function.³⁶⁶

The *size* of the property focuses on value, not physical characteristics. Property is similar in size if its full cash value is not more than 120 percent of the award or purchase price paid for the property taken.³⁶⁷ A replacement property or any portion of it that has a full cash value over

³⁶³ Rule 462.500(b)(4).

³⁶⁴ Rule 462.500(b)(1).

³⁶⁵ Rule 462.500(b)(5).

³⁶⁶ Rule 462.500(c).

³⁶⁷ Rule 462.500(c)(1).

1 120 percent of the award or purchase price is not similar in size, but only to the extent of the
2 excess.³⁶⁸

3 Replacement property is similar in *function* and *utility* if it either is, or is intended to be, used in
4 the same manner as the property taken. Property is similar in function and utility if the property
5 taken and the replacement property both fall into the same following categories:

6 1. **Category A, Single-Family Residence or Duplex:** Small miscellaneous buildings may be
7 included when used with the residence.

8 2. **Category B, Commercial, Investment, Income, or Vacant Property:** A single-family
9 residence or duplex used as an investment property may be considered income property if
10 sufficient evidence to the county assessor. Evidence may include, but is not limited to,
11 rental or lease agreements, cancelled checks, income tax returns, and other investment
12 records.

13 3. **Category C, Agricultural Property:** Agriculture includes farming in all aspects, including,
14 but not limited to soil cultivation and tillage; dairy farming; agricultural or horticultural
15 commodity production, cultivation, growing, and harvesting; livestock, bee, furbearing
16 animal, or poultry raising; forestry and lumber operations; and any other ancillary or
17 incidental practices performed with such operations, including market preparation and
18 storage, market delivery, or delivery to carriers for transport to market.³⁶⁹

19 Agricultural property that is in transition may be considered similar to Category B property if
20 property in its vicinity has been changing from historically agricultural use to another use.

21 If property does not fall within Category A or Category C, it falls within Category B.

22 To the extent that a replacement property, or any portion thereof, is not similar in size, function,
23 or utility, the property, or such portion thereof, is considered to have undergone a change in
24 ownership.³⁷⁰

25 ***Example 15-1***

26 An owner-occupied single-family residence is acquired by the state and the owner replaces it
27 with a combination residential dwelling and commercial property.

28 Only the residential dwelling portion of the replacement property is eligible for the base year
29 value transfer. The commercial portion is considered to have undergone a change in
30 ownership.

³⁶⁸ Rule 462.500(c)(1).

³⁶⁹ Rule 462.500(c)(2).

³⁷⁰ Rule 462.500(c)(3).

1 **Example 15-2**

2 M owns a 40-acre vineyard that includes an owner-occupied single-family residence. The
3 state acquires the residence and five acres of the vineyard.

4 To qualify for relief, M must replace the residence with Category A property and replace the
5 vineyard with Category C property. However, if the vineyard property is in transition to
6 another use, M may replace it with Category B property.

7 **BASE YEAR VALUE OF REPLACEMENT PROPERTY**

8 To determine the appropriate adjusted base year value of comparable replacement property, a
9 county assessor must use the following procedure:

- 10 1. Compare the award or purchase price paid for the property taken with the full cash value
11 of the replacement property.
- 12 2. If the full cash value of the comparable replacement property is *equal or less than*
13 120 percent of the award or purchase price, the adjusted base year value of the property
14 taken becomes the new base year value of the replacement property (regardless of
15 allocation between land and improvements).
- 16 3. If, however, the full cash value of the comparable replacement property is *more than*
17 120 percent of the award or purchase price, the new base year value of the replacement
18 property is the sum of:
- 19 • The adjusted base year value of the property taken; and
 - 20 • The amount of the full cash value of the replacement property in excess of
21 120 percent of the award or purchase price paid.³⁷¹
- 22 4. If the full cash value of the comparable replacement property is *less than* the adjusted
23 base year value of the property taken, the taken property's adjusted base year value is not
24 transferred and the full cash value of the replacement property becomes its new base year
25 value.

26 *Award or purchase price* means the amount paid by the acquiring entity for the property taken.
27 The amount does not include payment for relocation assistance or amounts paid for property
28 other than the replaced real property. The award or purchase price may not reflect the full cash
29 value of the property taken.³⁷²

30 If there is no award or purchase price paid by the acquiring entity (property has been exchanged),
31 then the full cash value of the property taken and the full cash value of the replacement property
32 will be determined by the assessor of the county in which each property is located.

³⁷¹ Rule 462.500(d)(1) through (d)(3).

³⁷² Rule 462.500(b)(3).

1 When the adjusted base year value is transferred to the replacement property, the allocation
2 between land and improvements may be adjusted, as needed, for the replacement property.

3 **OWNERSHIP REQUIREMENTS**

4 The base year value transfer relief afforded under section 68 is only available to the owner or
5 owners of the property taken. The owner may be one or more individuals or legal entities. While
6 not all owners of the property taken need be on title to the replacement property, relief is only
7 available to an owner of property taken who acquires title to a replacement property. Acquiring
8 an ownership interest in a legal entity that in turn directly or indirectly owns property does not
9 qualify as an acquisition of title to replacement property.³⁷³

10 If the property taken had multiple owners, each owner may purchase or newly construct a
11 replacement property and transfer their respective share of the base year value.

12 ***Example 15-3:***

13 B and C were joint tenants of a home which was taken through eminent domain proceedings
14 by the state. B purchased a replacement property which is comparable to the property taken.
15 C contributed his share of the award or purchase price to a limited partnership that owns a
16 home that is comparable to the property taken. B's relief under this section is limited to
17 120 percent of one-half of the award or purchase price of the property taken. C is entitled to
18 no relief.

19 **NEW CONSTRUCTION**

20 The base year value transfer under section 68 is available for any new construction required to
21 make the replacement property comparable to the property taken, as long as it meets the value,
22 timing, and filing requirements.

23 New construction completed after the base year value is transferred may be included in the
24 transferred base year value if it is completed within the appropriate time period, meets the value
25 requirements, and a claim is timely filed.

26 **TIMING AND FILING REQUIREMENTS**

27 To obtain base year value transfer relief under section 68, the person acquiring the replacement
28 property must file a timely claim with the county assessor. The replacement property must be
29 acquired before the claim is filed. Provided the claim is timely, the replacement property is
30 reassessed retroactively to the date of its acquisition and refunds should be issued.

³⁷³ Rule 462.500(e).

1 To obtain base year value transfer relief under section 68, replacement property must be acquired
2 on or after the *earliest* of the following dates:

- 3 1. The date the acquiring entity makes the initial written offer for the property;
- 4 2. The date the acquiring entity takes final action to approve a project resulting in an offer
5 for or the acquisition of the property taken;
- 6 3. The date the "Notice of Determination," "Notice of Exemption," or similar notice, as
7 required by the California Environmental Quality Act, is recorded by the public entity
8 acquiring the taxpayer's property and the public project has been approved; or
- 9 4. The date the property was taken as declared by a court.³⁷⁴

10 No base year value transfer relief under section 68 is available for replacement property acquired
11 before the date of displacement. However, the fact that a portion of a replacement property is
12 ineligible (for example, previously owned land) does not preclude another portion of the property
13 from qualifying (for example, a newly constructed improvement).

14 ***Example 15-4:***

15 A commercial property, consisting of land and improvements, is taken and replaced with a
16 Category B structure that was built on land that the taxpayer already owned. The land is
17 ineligible for relief because it was previously owned. Despite the ineligibility of the land, the
18 base year value of the property taken (land and improvements) may be transferred to the
19 newly constructed improvements to the extent it meets the value and timing requirements.

20 A claim is *timely* if it is made within **four years** after one of the following applicable dates:

- 21 1. For eminent domain property, the date the final order of condemnation is recorded or the
22 date the taxpayer vacates the property taken, whichever is later.
- 23 2. For public entity purchase or exchange property, the date of conveyance or the date the
24 taxpayer vacates the property taken, whichever is later.
- 25 3. For inverse condemnation property, the date the judgment of inverse condemnation
26 becomes final or the date the taxpayer vacates the property taken, whichever is later.³⁷⁵

27 When a taxpayer files a claim for relief under section 68, a county assessor may consider any of
28 the following documents as proof of actual displacement:

- 29 • A certified, recorded copy of the final condemnation order. If the final order has not yet
30 been issued, a certified, recorded copy of the order for possession which shows the
31 effective date on or after which the acquiring entity is authorized to take possession of the
32 property taken;

³⁷⁴ Rule 462.500(g)(3)(A) through (g)(3)(D).

³⁷⁵ Rule 462.500(g)(2)(A) through (g)(2)(C).

- 1 • A copy of a recorded deed showing a public entity acquired the property taken; or
- 2 • A certified copy of a final judgment of inverse condemnation.³⁷⁶

³⁷⁶ Rule 462.500(h)(1)(A) through (h)(1)(C).

CHAPTER 16: DAMAGED OR DESTROYED BY DISASTER

Three different types of base year value transfers exist for property that has been substantially damaged or destroyed in a disaster. What relief is available for a particular property depends on the type of property and whether the disaster was in an area subsequently proclaimed by the Governor to be in a state of emergency as a result of the disaster.

1. The base year value transfer for persons who are over age 55 or severely and permanently disabled may be used if their original property is substantially damaged or destroyed by *any* misfortune or calamity (not limited to Governor-proclaimed disasters) and sold in its damaged state (section 69.5).³⁷⁷ See Chapter 14 for a discussion of these provisions.
2. For any property that has been substantially damaged or destroyed in a Governor-proclaimed disaster, its base year value may be transferred to a comparable replacement property within the same county (section 69).
3. For a principal residence that has been substantially damaged or destroyed in a Governor-proclaimed disaster, its base year value may be transferred to a comparable replacement property located in another county if that county has enacted an ordinance implementing these provisions (section 69.3).

This chapter discusses the base year transfer provisions of sections 69 and 69.3, which authorize the transfer of base year values from property that has been substantially damaged or destroyed in a disaster.³⁷⁸ Sections 69(c)(3) and 69.3(b)(5) define *disaster* as a major misfortune or calamity in an area subsequently proclaimed by the Governor to be in a state of disaster as a result of the misfortune or calamity.

INTRACOUNTY TRANSFER

Proposition 50 was approved by the voters on June 3, 1986, and added subdivision (e) to section 2 of article XIII A of the California Constitution. These provisions authorize the Legislature to provide that the base year value of property that is substantially damaged or destroyed by a disaster, as declared by the Governor, may be transferred to comparable property within the same county. Revenue and Taxation Code section 69 implements this and applies to any comparable replacement property acquired or newly constructed on or after July 1, 1985.

Property is *substantially damaged or destroyed* if it sustains physical damage amounting to more than 50 percent of its full cash value immediately prior to the disaster. The damage includes diminution in value if the disaster caused permanent, restricted access to the property.³⁷⁹

³⁷⁷ Section 69.5(b)(1).

³⁷⁸ See also section 70(c).

³⁷⁹ Section 69(c)(1).

1 *Property* means any type of property, real or personal, that has a base year value that can be
 2 transferred to another comparable property. The intracounty base year value transfer is not
 3 limited to principal residences.

4 A replacement property must be located **in the same county** as the substantially damaged or
 5 destroyed property.

6 The owner of the substantially damaged or destroyed property must acquire or newly construct a
 7 comparable replacement property within **five years**³⁸⁰ after the disaster.

8 **COMPARABLE REPLACEMENT PROPERTY**

9 The general rule is that replacement property for substantially damaged or destroyed property is
 10 comparable if it is similar in function, utility, and size.³⁸¹

11 Replacement property is similar in *function* if it is subject to similar governmental restrictions,
 12 such as zoning.

13 Replacement property is similar in *utility* if it is, or is intended to be, used in the same manner as
 14 the damaged or destroyed property. If a replacement property (or any portion thereof) is used or
 15 is intended to be used for a substantially different purpose than the way the damaged or
 16 destroyed property was used, it will be considered not similar in utility to the extent of that
 17 dissimilar use.

18 Size is associated with value and does not refer to physical characteristics, such as acreage or
 19 square footage. Specifically, replacement property is similar in *size* if its full cash value is not
 20 more than 120 percent of the full cash value of the damaged or destroyed property. If a
 21 replacement property (or any portion thereof) is similar in utility but has a full cash value over
 22 120 percent of the full cash value of the damaged or destroyed property, it will be considered not
 23 similar in utility and size to the extent of that excess.³⁸²

24 If replacement property (or any portion thereof) is not similar in function, utility, and size, the
 25 replacement property (or the portion thereof) will be deemed to have undergone a change in
 26 ownership at the time the replacement property is acquired or newly constructed.³⁸³

27 **BASE YEAR VALUE OF REPLACEMENT PROPERTY**

28 To determine the adjusted base year value of comparable replacement property, a county
 29 assessor must use the following rules and procedures:

- 30 1. If the full cash value of the replacement property is not more than 120 percent of the full
 31 cash value of the damaged or destroyed property, the adjusted base year value of the
 32 damaged or destroyed property is the new base year value of the replacement property.

³⁸⁰ For damage or destruction caused by disasters occurring before July 1, 2003, the replacement period was three years. An exception to this three-year period was the 1994 Northridge earthquake which had a period of five years.

³⁸¹ Section 69(c)(2).

³⁸² Section 69(c)(2)(A) and (2)(B).

³⁸³ Section 69(c)(2)(C).

- 1 2. If the full cash value of the replacement property exceeds 120 percent of the full cash
 2 value of the damaged or destroyed property, then the amount of the full cash value over
 3 120 percent of the full cash value of the damaged or destroyed property shall be added to
 4 the adjusted base year value of the damaged or destroyed property. The sum of these
 5 amounts shall become the replacement property's base year value.
- 6 3. If the full cash value of the replacement property is less than the adjusted base year value
 7 of the damaged or destroyed property, then the full cash value of the replacement
 8 property will become its new base year value.

9 The full cash value of the damaged or destroyed property is the full cash value immediately prior
 10 to the damage or destruction, as determined by the county assessor.³⁸⁴

11 **BASE YEAR VALUE OF ORIGINAL PROPERTY**

12 When the base year value of the substantially damaged or destroyed property is transferred to the
 13 replacement property, the substantially damaged or destroyed property is reassessed at its full
 14 cash value reflecting its damaged state, but will not get a new base year value. However, the
 15 substantially damaged or destroyed property retains its base year value. In other words, the
 16 damaged property will receive Proposition 8 treatment and its base year value is replicated to the
 17 replacement property.

18 If the base year value of the original property is transferred under section 69 and the original
 19 property is subsequently reconstructed, then no exclusion from new construction under the
 20 disaster relief provision of section 70(c) or 170 is available for the original property.

21 **OWNERSHIP REQUIREMENT**

22 The base year value transfer relief afforded by section 69 is only available to the owner or
 23 owners of the damaged or destroyed property who take title to the replacement property. The
 24 owner can be one or more individuals or legal entities. While not all owners of the property taken
 25 need be on title to the replacement property, relief is only available to an owner of property taken
 26 who acquires title to a replacement property. However, acquiring an interest in a legal entity that
 27 in turn directly or indirectly owns replacement property does not qualify as an acquisition of title
 28 to replacement property.³⁸⁵

29 **FILING REQUIREMENTS**

30 Section 69 does not require that a claim be filed. Nor does it specify any time period in which to
 31 request relief. For administrative ease, BOE-69 has been created for taxpayers and county
 32 assessors to use.

³⁸⁴ Section 69(b)(1) through (b)(4).

³⁸⁵ Section 69(e).

INTERCOUNTY BASE YEAR VALUE TRANSFER

Proposition 171, approved by the voters on November 2, 1993, amended subdivision (e) of section 2 of article XIII A of the California Constitution. Section 69.3 implements this provision and authorizes a base year value transfer from a principal residence damaged or destroyed in a Governor-proclaimed disaster to a comparable replacement residence located in *another county* if that county has adopted an ordinance that implements such a transfer.

The Governor must proclaim the area to be in a state of emergency as a result of the misfortune or calamity. This relief applies to any disaster occurring on or after October 20, 1991 (the Oakland Hills fire).

A county's Board of Supervisors must approve an ordinance allowing such a transfer after consultation with affected local agencies. It is separate from an ordinance to allow a transfer of base year value under section 69.5 (Proposition 90). As of January 1, 2009, the nine counties that have adopted an ordinance to implement these disaster relief provisions are:

| | | |
|--------------|---------------|---------|
| Contra Costa | Orange | Solano |
| Los Angeles | San Francisco | Sutter |
| Modoc | Santa Clara | Ventura |

The requirements to obtain relief under section 69.3 are more restrictive than those discussed above with respect to base year value transfers under section 69. These base year value transfer requirements under section 69.3 are similar, but not identical, to those in section 69.5 (transfers of base year value for persons over age 55 or severely and permanently disabled; see chapter 14).

ORIGINAL AND REPLACEMENT PROPERTIES

The original property is *substantially damaged or destroyed* if either it sustains physical damage amounting to more than 50 percent of its full cash value immediately prior to the disaster.

An *original property* and a *replacement property* are defined as a building, structure, or other shelter constituting a place of abode and any land owned by the claimant on which it is situated. *Land* includes only that area of reasonable size that is used as a site for a residence. Land also includes land for which the claimant holds a leasehold interest under section 61(c) or a land purchase contract.

Both the original property and the replacement property must be the claimant's *principal place of residence*.³⁸⁶ A principal residence is a person's true, fixed, and permanent home and principal establishment to which the owner, whenever absent, intends to return. If the property was not granted a homeowners' or disabled veterans' exemption, the county assessor may require proof of residency. Examples of proof include vehicle registration, voter registration, bank accounts, or income tax records.

³⁸⁶ Section 69.3(b)(9) [original property] and (b)(11) [replacement property].

1 **OWNERSHIP**

2 Only individuals who own the original property can be claimants.³⁸⁷ An *individual* does not
3 include any firm, partnership, association, corporation, company, or other legal entity or
4 organization of any kind.

5 **TIMING**

6 The replacement property must be acquired or newly constructed within **three years** after the
7 damage or destruction of the original property.³⁸⁸ This three-year period is specified in the
8 California Constitution; thus, it cannot be extended under any circumstances.

9 **EQUAL OR LESSER VALUE**

10 The replacement property must be of equal or lesser value than the original property, which
11 means that the full cash value of the replacement property cannot exceed one of the following:

- 12 • **105 percent** if the replacement property is purchased or newly constructed within the
13 *first year* following the date of the damage or destruction of the original property.
- 14 • **110 percent** if the replacement property is purchased or newly constructed within the
15 *second year* following the date of damage or destruction of the original property.
- 16 • **115 percent** if the replacement property is purchased or newly constructed within the
17 *third year* following the date of damage or destruction of the original property.³⁸⁹

18 *Full cash value of the original property* means its fair market value immediately prior to its
19 substantial damage or destruction, as determined by the county assessor of the county in which
20 the property is located.

21 *Full cash value of the replacement property* means its fair market value as of the date it was
22 purchased or new construction was completed. If a replacement property is purchased, in part,
23 and newly constructed, in part, the *date the replacement property is purchased or newly*
24 *constructed* is the date of the purchase or the date of completion of new construction, whichever
25 is later.³⁹⁰

26 **BASE YEAR VALUE OF ORIGINAL PROPERTY**

27 At the time the base year value of the substantially damaged or destroyed property is transferred
28 to the replacement property, the substantially damaged or destroyed property is reassessed at its
29 full cash value, but will not get a new base year value. The substantially damaged or destroyed
30 property will retain its base year value.

31 When a substantially damaged or destroyed property's base year value has been transferred to a
32 replacement property under this section, the substantially damaged or destroyed property is not

³⁸⁷ Section 69.3(b)(10).

³⁸⁸ Section 69.3(a)(1).

³⁸⁹ Section 69.3(b)(6)(A) through (b)(6)(C).

³⁹⁰ Section 69.3(b)(6)(C).

1 eligible for the new construction exclusion under section 70(c) or 170 in the event of its
2 reconstruction.

3 **FILING REQUIREMENTS**

4 A claim must be filed with the county assessor within three years after the acquisition or new
5 construction of the replacement property.³⁹¹ Prospective relief is not available if the filing period
6 is missed.

³⁹¹ Section 69.3(e).

CHAPTER 17: ENVIRONMENTAL CONTAMINATION

Proposition 1, approved by the voters on November 3, 1998, added subdivision (i) to section 2 of article XIII A of the California Constitution. This amendment allows property tax relief in one of two forms for qualified contaminated property. Specifically, property owners are able to either:

- Sell or otherwise transfer the qualified contaminated property and transfer its base year value to a replacement property of equal or lesser value, or
- Repair or replace without reassessment structures located on the qualified contaminated property that were substantially damaged or destroyed during the course of the remediation of the environmental problems.

The base year value transfer is implemented by section 69.4. The new construction exclusion is implemented by section 74.7 and is not discussed in this handbook. This chapter discusses the base year value transfer provisions for qualified contaminated property.

QUALIFIED CONTAMINATED PROPERTY

The property must be located on a site that a state or federal government agency has designated as a toxic or environmental hazard or as an environmental cleanup site.³⁹² A determination of contamination by a city or county is not sufficient to deem a property as qualified for this property tax relief.

CONDITION OF PROPERTY

Residential property has to be *uninhabitable* and nonresidential property has to be *unusable* as the result of either:

- Environmental problems, including, but not limited to, the presence of toxic or hazardous materials.
- The remediation of those environmental problems.

Uninhabitable means that residential real property is unfit for human habitation as a result of health hazards caused by or associated with the environmental problems. *Unusable* means that nonresidential property is unhealthy and unsuitable for occupancy as a result of health hazards caused by or associated with the environmental problems.³⁹³

OWNERSHIP

The owner of the property must not have caused the property to be uninhabitable or unusable. Additionally, the property owner cannot be related to the individual or entity that caused the property to be contaminated. There is a rebuttable presumption that the owner participated or acquiesced in an act or omission that rendered the property uninhabitable or unusable if the

³⁹² California Constitution, article XIII A, section 2(i)(2)(B).

³⁹³ California Constitution, article XIII A, section 2(i)(2)(A).

1 owner is related to any individual or entity that committed the act or omission in any of the
2 following ways:

- 3 • A spouse, parent, child, grandparent, grandchild, or sibling of that individual.
- 4 • A corporate parent, subsidiary, or affiliate of that entity.
- 5 • An owner of, or has control of, that entity.
- 6 • Owned or controlled by that entity.³⁹⁴

7 The owner must provide satisfactory evidence to the county assessor that he or she did not
8 participate in any act or omission that resulted in the contamination or that he or she is related to
9 an individual or entity that caused the property to be contaminated. The county assessor is not
10 bound by the findings of the lead government agency in determining whether this presumption
11 has been overcome.

12 **BASE YEAR VALUE TRANSFER**

13 In addition to the above eligibility requirements, the replacement property and its owner must
14 meet the following criteria in order to be eligible for the base year value transfer.

15 **TIMING**

16 The qualified contaminated property must be sold or transferred before the base year value can
17 be transferred. Upon the sale or transfer, the qualified contaminated property must be subject to a
18 change in ownership that results in either of the following:

- 19 1. A reappraisal at its current fair market value pursuant to sections 110.1 or 5803; or
- 20 2. Receipt of a base year value transferred from another property under the provisions of
21 section 69 (intracounty disaster relief), section 69.3 (intercounty disaster relief), or
22 section 69.5 (principal residence).³⁹⁵

23 A replacement property must be acquired or new construction completed within **five years** after
24 the sale or transfer of the qualified contaminated property.³⁹⁶ Property acquired prior to the sale
25 or transfer of the qualified contaminated property is not eligible for relief under section 69.4.

26 These provisions apply to a replacement property that is acquired or newly constructed on or
27 after January 1, 1995.³⁹⁷

³⁹⁴ California Constitution, article XIII A, section 2(i)(3).

³⁹⁵ Section 69.4(c).

³⁹⁶ California Constitution, article XIII A, section 2(i)(1)(A)(ii).

³⁹⁷ Section 69.4(h).

1 LOCATION

2 Both the qualified contaminated property and the replacement property must be located in the
3 *same* county.³⁹⁸

4 A replacement property may be located in a different county if that county has a resolution
5 authorizing intercounty transfers under this code section. As of July 1, 2009, none of the
6 58 California counties has passed such a resolution.

7 COMPARABILITY

8 A replacement property must be comparable to the qualified contaminated property. Comparable
9 means a replacement property is similar in utility and function to the property that it replaces.
10 Property is similar in function and utility if it is, or is intended to be, used in the same manner as
11 the qualified contaminated property.³⁹⁹

12 EQUAL OR LESSER VALUE

13 The fair market value of the replacement property must be equal or less than the fair market
14 value of the original property.⁴⁰⁰ *Equal or less* means the fair market value of the replacement
15 property cannot exceed:⁴⁰¹

- 16 • **105 percent** of the market value of the original property as if uncontaminated if the
17 replacement property is purchased or newly constructed within the *first year* following
18 the date of sale or transfer of the original property;
- 19 • **110 percent** of the market value of the original property as if uncontaminated if the
20 replacement property is purchased or newly constructed within the *second year* following
21 the date of sale or transfer of the original property;
- 22 • **115 percent** of the market value of the original property as if uncontaminated if the
23 replacement property is purchased or newly constructed within the *third year* following
24 the date of sale or transfer of the original property;
- 25 • **120 percent** of the market value of the original property as if uncontaminated if the
26 replacement property is purchased or newly constructed within the *fourth year* following
27 the date of sale or transfer of the original property;
- 28 • **125 percent** of the market value of the original property as if uncontaminated if the
29 replacement property is purchased or newly constructed within the *fifth year* following
30 the date of sale or transfer of the original property.

³⁹⁸ California Constitution, article XIII A, section 2(i)(1)(A)(i).

³⁹⁹ Section 69.4(e)(7).

⁴⁰⁰ California Constitution, article XIII A, section 2(i)(1)(A)(i).

⁴⁰¹ Section 69.4(e)(2).

1 The *fair market value of the replacement property* on the date of purchase or completion of new
 2 construction is that which the property would bring on the open market in accordance with
 3 section 110.1.⁴⁰²

4 The *fair market value of the qualified contaminated property* means its full cash value as if
 5 uncontaminated on the date of sale or transfer.⁴⁰³

6 **FILING PERIOD**

7 A claim for relief must be filed within *three years* of the date the replacement property is
 8 acquired or new construction is completed.⁴⁰⁴ In addition to filing the claim, the owner must
 9 provide the following information:

- 10 • Proof that the qualified contaminated property has been designated as a toxic or
 11 environmental hazard or as an environmental cleanup site by an agency of the State of
 12 California or the federal government.⁴⁰⁵
- 13 • Proof that the owner did not participate in, or acquiesce to, any act or omission that
 14 rendered the real property uninhabitable or unusable, as applicable, or is not related to
 15 any individual or entity that committed that act or omission.⁴⁰⁶

16 No prospective relief is available if the filing deadline is missed.

17 Upon the timely filing of a claim, the county assessor will transfer the adjusted base year value
 18 from the qualified contaminated property to the replacement property as of the date the
 19 replacement property is acquired or construction of the replacement property is completed,
 20 whichever is later.⁴⁰⁷

⁴⁰² Section 69.4(e)(4).

⁴⁰³ Section 69.4(e)(5).

⁴⁰⁴ Section 69.4(f).

⁴⁰⁵ Section 69.5(f)(2)(A).

⁴⁰⁶ Section 69.5(f)(2)(B).

⁴⁰⁷ Section 69.4(g).

APPENDIX 1: PROPERTY TAX RULES

Title 18, Public Revenues California Code of Regulations

RULE 462.001. CHANGE IN OWNERSHIP – GENERAL

Reference: Sections 60-67, Revenue and Taxation Code.
Section 15606 Government Code.

A "change in ownership" in real property occurs when there is a transfer of a present interest in the property, including the transfer of the right to beneficial use thereof, the value of which is substantially equal to the value of the fee interest. Every transfer of property qualified as a "change in ownership" shall be so regarded whether the transfer is voluntary, involuntary, by operation of law, by grant, gift, devise, inheritance, trust, contract of sale, addition or deletion of an owner, property settlement, or any other means. A change in the name of an owner of property not involving a change in the right to beneficial use is excluded from the term "transfer" as used in this section.

History: Adopted June 29, 1978, effective July 3, 1978.
Amended September 26, 1978, effective October 2, 1978.
Repealed Old Rule and Adopted New Rule August 16, 1979, effective August 22, 1979.
Amended November 13, 1979, effective December 6, 1979.
Amended May 5, 1981, effective August 12, 1981.
Amended March 31, 1982, effective June 10, 1982.
Amended May 11, 1994, effective June 10, 1994. Renumbered, formerly 462(a).
Amended February 4, 1997, effective June 11, 1997.

RULE 462.020. CHANGE IN OWNERSHIP – TENANCIES IN COMMON

Reference: Sections 60, 61, 62, 63, 63.1, 65, 65.1, and 67, Revenue and Taxation Code.
Section 15606, Government Code.

(a) General Rule. The creation, transfer, or termination of a tenancy in common interest is a change in ownership of the undivided interest transferred.

(b) EXCEPTIONS. The following transfers do not constitute a change in ownership:

(1) The transfer is between or among co-owners and results in a change in the method of holding title but does not result in a change in the proportional ownership interests of the co-owners, such as:

(A) a partition,

(B) a transfer from a co-tenancy to a joint tenancy, or

(C) a transfer from a co-tenancy to a legal entity which results solely in a change in the method of holding title and in which the proportional ownership interests in the property remain the same after the transfer. (Such transferees shall be considered to be the "original co-owners" of the property for purposes of determining whether a change in ownership has occurred upon the subsequent transfers of the ownership interests in the property.)

Example 1: A and B own a parcel of real property as tenants in common each owning a 50% interest. They transfer the property to a newly formed corporation each receiving 50% of the stock. Such a transfer would not be regarded as a change in ownership.

(2) The transfer is of an undivided interest of less than five percent of the value of the total property and has a value of less than \$10,000; provided, however, that transfers of such interests during any one assessment year (the period from January 1 through December 31) shall be accumulated for the purpose of determining the percentage interest and value transferred. When the value of the accumulated interests transferred during any assessment year equals or exceeds five percent of the value of the total property or \$10,000, then that percentage of the property

1 represented by the transferred accumulated interests shall be reappraised. For purposes of this subsection, the
 2 "accumulated interests transferred" shall not include any transfer of an interest that is otherwise excluded from
 3 change in ownership.

4 Example 2: At the end of the assessment year the value of the accumulated interests transferred equals 3 percent
 5 of the value of the total property and the dollar value of these interests is \$12,000. There will be a reappraisal of the
 6 transferred accumulated interests because their value exceeds \$10,000.

7 Example 3: At the end of the assessment year the value of the accumulated interests transferred equals 7 percent
 8 of the value of the total property and the dollar value of these interests is \$9,000. There will be a reappraisal of the
 9 transferred accumulated interests because they exceed 5 percent of the value of the total property.

10 (3) The transfer is one to which the interspousal exclusion applies.

11 (4) The transfer is one to which the parent-child or grandparent-grandchild exclusion applies, and for which a
 12 timely claim has been filed as required by law.

13 History: Adopted June 29, 1978, effective July 3, 1978.
 14 Amended September 26, 1978, effective October 2, 1978.
 15 Repealed Old Rule and Adopted New Rule August 16, 1979, effective August 22, 1979.
 16 Amended May 5, 1981, effective August 12, 1981.
 17 Amended March 31, 1982, effective June 10, 1982.
 18 Amended May 11, 1994, effective June 10, 1994. Renumbered, formerly 462(b).
 19 Amended October 9, 1997, effective February 20, 1998.

20 **RULE 462.040. CHANGE IN OWNERSHIP – JOINT TENANCIES**

21 Authority Cited: Section 15606, Government Code.
 22 Reference: Sections 60, 61, 62, 63, 63.1, 65, 65.1, 67, Revenue and Taxation Code; Section 662, Evidence Code.

23 (a) The creation, transfer, or termination of a joint tenancy interest is a change in ownership of the interest
 24 transferred.

25 Example 1: The purchase of property by A and B, as joint tenants, is a change in ownership of the entire
 26 property.

27 Example 2: The transfer from A and B, as joint tenants, to C and D, as joint tenants, is a change in ownership of
 28 the entire property.

29 Example 3: The subsequent transfer from C and D, as joint tenants, to C, as sole owner, is a change in
 30 ownership of 50% of the property.

31 (b) The following transfers do not constitute a change in ownership:

32 (1) The transfer creates or transfers any joint tenancy interest, including an interest in a trust, and after such
 33 creation or transfer, the transferor(s) is one of the joint tenants. Such a transferor(s) is also a transferee(s) and is,
 34 therefore, considered to be an "original transferor(s)" for purposes of determining the property to be reappraised
 35 upon subsequent transfers. If a spouse of an original transferor acquires an interest in the joint tenancy property
 36 either during the period that the original transferor holds an interest or by means of a transfer from the original
 37 transferor, such spouse shall also be considered to be an original transferor. Any joint tenant may also become an
 38 original transferor by transferring his or her joint tenancy interest to the other joint tenant(s) through his or her trust
 39 if the trust instrument names the other joint tenant(s) as the present beneficiary or beneficiaries. All other initial and
 40 subsequent joint tenants are considered to be "other than original transferors."

41 Example 4: A and B own property as tenants in common and transfer the property to A and B as joint tenants. A
 42 and B are both "original transferors."

1 Example 4-1: A and B purchase property as joint tenants. Later A and B transfer their property interests to each
2 other as joint tenants through their respective trusts. A and B are transferors who are among the joint tenants and are,
3 therefore, considered to be "original transferors."

4 Example 5: A and B, as joint tenants, transfer to A, B, C, and D as joint tenants. No change in ownership
5 because A and B, the transferors, are included among the transferees and are, therefore, "original transferors." (C
6 and D are "other than original transferors.") Likewise, if A, as the sole owner, had transferred to A, B, C, and D as
7 joint tenants, no change in ownership. A would be an "original transferor" and B, C, and D would be "other than
8 original transferors."

9 Example 6: A and B, as joint tenants, transfer to A, B, C, D and E as joint tenants. E is B's wife. No change in
10 ownership because A and B, the transferors, are included among the transferees and are, therefore, "original
11 transferors." E is also an "original transferor." (C and D are "other than original transferors.")

12 Example 7-1: A, B, and C are joint tenants and A is an "original transferor." A dies. B and C transfer to B, C,
13 and D as joint tenants. D is A's husband. D does not become an original transferor because he did not acquire his
14 interest during the period that A held an interest in the joint tenancy.

15 Example 7-2: A and B, as joint tenants, transfer to B and C, as joint tenants, and C is A's spouse. C is an
16 original transferor because he was the spouse of an original transferor and he acquired an interest by means of a
17 transfer from A.

18 Example 7-3: A and B are joint tenants and A is an "original transferor." C is A's spouse. A and B as joint
19 tenants transfer to A, B, and C. C is an original transferor.

20 Example 8: A and B, as joint tenants, transfer to B, C and D, as joint tenants. 66 2/3% change in ownership of
21 the transferred interests because A is not one of the transferees.

22 Example 9: A and B purchase property as joint tenants and transfer their joint tenancy interests to each other
23 through their respective trusts. A and B become "original transferors." A and B sell a 50% interest to C and D, with
24 the deed showing A, B, C and D as joint tenants. C and D then transfer their joint tenancy interests to each other
25 through their trusts, so that both become "original transferors." A and B then sell their remaining 50% to C and D,
26 and go off title. Under circumstances where application of the step-transaction doctrine to disregard the form of the
27 transaction would be appropriate due to their intent to avoid a change in ownership, A, B, C, and D do not become
28 "original transferors" as the result of their transfers to each other.

29 (2) The transfer terminates an original transferor's interest in a joint tenancy described in (b)(1) and the interest
30 vests in whole or in part in the remaining original transferor(s); except that, upon the termination of the interest of
31 the last surviving original transferor, there shall be a reappraisal of the property as if it had undergone a 100 percent
32 change in ownership.

33 Example 10: A and B transfer to A, B, C, and D as joint tenants. A dies or grants his interest to the remaining
34 joint tenants, B, C, and D. No change in ownership because B, an original transferor, remains as a joint tenant.

35 Example 11: Following the example set forth in Example 10 (above), B dies or grants his interest to C and D.
36 100 percent change in ownership because both A's and B's interests had previously been excluded from reappraisal
37 and B was the last surviving original transferor.

38 (3) The transfer terminates a joint tenancy interest held by other than an original transferor in a joint tenancy
39 described in (b)(1) and the interest is transferred either to an original transferor, or to all the remaining joint tenants,
40 provided that one of the remaining joint tenants is an original transferor. The original transferor status of any
41 remaining joint tenants ceases when a joint tenancy is terminated.

42 Example 12: Following the example set forth in Example 10 (above), C, not an original transferor, grants his
43 interest to B and D. No change in ownership because C grants to the remaining joint tenants, B and D, and B is an
44 original transferor.

1 Example 13: A owns real property and transfers a 50% interest to B as a tenant in common resulting in a change
 2 in ownership of that 50% interest. They subsequently transfer to themselves in joint tenancy and, as a result, become
 3 "original transferors." A dies and A's joint tenancy interest passes to B by operation of law without a change in
 4 ownership because B is an "original transferor." Upon A's death, the joint tenancy is terminated and B ceases to be
 5 an "original transferor."

6 (4) For other than joint tenancies described in (b)(1), the transfer is between or among co-owners and results in
 7 a change in the method of holding title but does not result in a change in the proportional interests of the co-owners,
 8 such as:

9 (A) a transfer terminating the joint tenancy and creating separate ownerships of the property in equal
 10 interests.

11 (B) a transfer terminating the joint tenancy and creating a tenancy in common of equal interests.

12 (C) a transfer terminating a joint tenancy and creating or transferring to a legal entity when the interests of
 13 the transferors and transferees remain the same after the transfer. (Such transferees shall be considered to be the
 14 "original co-owners" for purposes of determining whether a change in ownership occurs upon the subsequent
 15 transfer(s) of the ownership interests in the property.)

16 (5) The transfer is one to which the interspousal exclusion applies.

17 (6) The transfer is of a joint tenancy interest of less than five percent of the value of the total property and has a
 18 value of less than \$10,000; provided, however, that transfers of such interests during any one assessment year (the
 19 period from January 1 through December 31) shall be accumulated for the purpose of determining the percentage
 20 interest and value transferred. When the accumulated interests transferred during any assessment year equals or
 21 exceeds five percent of the value of the total property or \$10,000, exclusive of any interest transferred to a spouse or
 22 other exempt transfer, only that percentage of the property represented by the transferred accumulated interests shall
 23 be reappraised. For purposes of this subsection, the "accumulated interests transferred" shall not include any transfer
 24 of an interest that is otherwise excluded from change in ownership.

25 (7) The transfer is one to which the parent-child or grandparent-grandchild exclusion applies, and for which a
 26 timely claim has been filed as required by law.

27 (c) For purposes of this section, for joint tenancies created on or before March 1, 1975, it shall be rebuttably
 28 presumed that each joint tenant holding an interest in property as of March 1, 1975, shall be an "original transferor."
 29 This presumption is not applicable to joint tenancies created after March 1, 1975.

30 (d) For purposes of this section, the assessor may consider persons holding joint title to property, such as tenants in
 31 common, to be joint tenants and "original transferors" if there is "reasonable cause" to believe that the parties
 32 intended to create a joint tenancy and each person was a transferor among the persons holding title. "Reasonable
 33 cause" means a deed, Affidavit of Death of Joint Tenant, a trust, will, or estate plan indicating that a joint tenant was
 34 a transferor among the joint tenants, unless circumstances causing the application of the step transaction exist.

35 Example 14: A and B jointly purchase their primary residence and title is recorded as tenants in common. The
 36 sales contract states that A and B intended to take title as joint tenants. Subsequently, A and B each execute
 37 revocable living trusts transferring their respective interests in the property to their trusts for the benefit of each
 38 other. The assessor may determine that the sales contract and trust instruments establish that A and B intended to
 39 hold title as joint tenants upon purchase and that each subsequently became an "original transferor."

40 History: Adopted June 29, 1978, effective July 3, 1978.
 41 Amended September 26, 1978, effective October 2, 1978.
 42 Repealed old rule and adopted new rule August 16, 1979, effective August 22, 1979.
 43 Amended November 13, 1979, effective December 6, 1979.
 44 Amended May 5, 1981, effective August 12, 1981.
 45 Amended March 31, 1982, effective June 10, 1982.
 46 Amended May 11, 1994, effective June 10, 1994. Renumbered, formerly 462(c).
 47 Amended October 15, 1998, effective January 29, 1999.
 48 Amended and effective April 3, 2001.

1 Amended July 9, 2003, effective November 13, 2003.

2 **RULE 462.060. CHANGE IN OWNERSHIP – LIFE ESTATE AND ESTATES FOR YEARS**

3 Reference: Sections 60, 61, 62, 63, 67, Revenue and Taxation Code.

4 (a) Life estates. The creation of a life estate in real property is a change in ownership at the time of transfer unless
5 the instrument creating the life estate reserves such estate in the transferor or the transferor's spouse. However, the
6 subsequent transfer of such a life estate by the transferor or the transferor's spouse to a third party is a change in
7 ownership. Upon termination of such a reserved life estate, the vesting of a right to possession or enjoyment of a
8 remainderman (other than the transferor or the transferor's spouse) is a change in ownership.

9 (b) Estate for years. The creation of an estate for years for a term of 35 years or more in real property is a change in
10 ownership at the time of transfer unless the instrument creating the estate for years reserves such estate in the
11 transferor or the transferor's spouse. However, the subsequent transfer of such an estate for years by the transferor or
12 the transferor's spouse to a third party is a change in ownership. Upon the termination of a reserved estate for years
13 for any term, the vesting of the right to possession or enjoyment of a remainderman (other than the transferor or the
14 transferor's spouse) is a change in ownership. The creation or transfer of an estate for years for less than 35 years is
15 not a change in ownership.

16 History: Adopted June 29, 1978, effective July 3, 1978.
17 Amended September 26, 1978, effective October 2, 1978.
18 Repealed Old Rule and Adopted New Rule August 16, 1979, effective August 22, 1979.
19 Amended May 5, 1981, effective August 12, 1981.
20 Amended May 11, 1994, effective June 10, 1994. Renumbered, formerly 462 (d).

21 **RULE 462.080. CHANGE IN OWNERSHIP – POSSESSORY INTERESTS**

22 Reference: Sections 60, 61, 62 and 67, Revenue and Taxation Code.
23 Section 15606, Government Code.

24 (a) **General Rule.** The creation, renewal, extension, sublease, or assignment of a taxable possessory interest in tax
25 exempt real property for any term is a change in ownership. "Renewal" and "extension" do not include the granting
26 of an option to renew or extend an existing agreement pursuant to which the term of possession of the existing
27 agreement would, upon exercise of the option, be lengthened, whether the option is granted in the original
28 agreement or subsequent thereto. "Assignment" of a possessory interest means the transfer of all rights held by a
29 transferor in a possessory interest.

30 (b) **EXCEPTIONS.** The following do not constitute changes in ownership of taxable possessory interests:

31 (1) An interest, whether an estate for years or an estate for life, created by a reservation in an instrument
32 deeding the property to a tax exempt governmental entity.

33 (2) Any renewal or extension of a taxable possessory interest during the reasonably anticipated term of
34 possession used by the assessor in establishing the initial base year value of the interest, in which case, a change in
35 ownership occurs at the end of the reasonably anticipated term of possession used by the assessor to value that
36 interest.

37 (3) A sublease of a taxable possessory interest for a term, including renewal options, that does not exceed
38 half the length of the remaining term of the leasehold, including renewal options.

39 (4) The termination of a sublease of a taxable possessory interest with an original term, including renewal
40 options, that did not exceed half the length of the remaining term of the leasehold, including renewal options, when
41 the sublease was entered into.

42 (5) Any transfer of a sublessee's interest in a taxable possessory interest, with a remaining term, including
43 renewal options, that does not exceed half of the remaining term of the leasehold.

1 (6) Any transfer of a taxable possessory interest subject to a sublease with a remaining term, including
2 renewal options, that exceeds half the length of the remaining term of the leasehold, including renewal options.

3 History: Adopted June 29, 1978, effective July 3, 1978.
4 Amended September 26, 1978, effective October 2, 1978.
5 Repealed Old Rule and Adopted New Rule August 16, 1979, effective August 22, 1979.
6 Amended May 5, 1981, effective August 12, 1981.
7 Amended May 11, 1994, effective June 10, 1994. Renumbered, formerly 462 (e).
8 Amended February 4, 1997, effective June 11, 1997.

9 **RULE 462.100. CHANGE IN OWNERSHIP – LEASES**

10 Reference: Sections 60, 61, 62, 67, Revenue and Taxation Code.

11 (a) The following transfers of either the lessee's interest or the lessor's interest in taxable real property constitute a
12 change in ownership of such real property:

13 (1) Lessee's Interest:

14 (A) The creation of a leasehold interest in real property for a term of 35 years or more.

15 (B) The transfer, sublease, or assignment of a leasehold interest with a remaining term of 35 years or
16 more.

17 (C) The termination of a leasehold interest which had an original term of 35 years or more.

18 (2) Lessor's Interest:

19 (A) The transfer of a lessor's interest in taxable real property subject to a lease with a remaining term of
20 less than 35 years.

21 (B) The transfer of a lessor's interest in taxable real property subject to multiple leases, one or more of
22 which is for a remaining term of less than 35 years and one or more of which is for a remaining term of 35 years or
23 more, in which case there is a change in ownership of the portion of the property subject to the lease(s) with a
24 remaining term of less than 35 years.

25 (b) The following transfers of either the lessee's interest or the lessor's interest in taxable real property do not
26 constitute a change in ownership of such real property.

27 (1) Lessee's interest:

28 (A) The creation of a leasehold interest in real property for a term of less than 35 years.

29 (B) The transfer, sublease, or assignment of a leasehold interest with a remaining term of less than 35
30 years (regardless of the original term of the lease).

31 (C) The termination of a leasehold interest which had an original term of less than 35 years.

32 (2) Lessor's interest:

33 (A) The transfer of a lessor's interest in real property subject to a lease with a remaining term of 35 years
34 or more, whether to the lessee or another party.

35 (c) Once a change in ownership of taxable real property subject to a lease has been deemed to have occurred, the
36 entire property subject to the lease is reappraised (i.e., the value of both the lessee's interest and the reversion).

37 (d) The calculation of the term of a lease for all purposes of this section shall include written renewal options.

1 (e) It shall be conclusively presumed that all homes (other than mobilehomes subject to Part 13 of Division 1 of the
2 Revenue and Taxation Code) eligible for the homeowners' exemption which are on leased land have written renewal
3 options on the lease of such land of at least 35 years, whether or not such renewal options in fact exist in any
4 contract or agreement.

5 History: Adopted June 29, 1978, effective July 3, 1978.
6 Amended September 26, 1978, effective October 2, 1978.
7 Repealed Old Rule and Adopted New Rule August 16, 1979, effective August 22, 1979.
8 Amended November 13, 1979, effective December 6, 1979.
9 Amended May 5, 1981, effective August 12, 1981.
10 Amended May 11, 1994, effective June 10, 1994. Renumbered, formerly 462 (f).

11 **RULE 462.120. CHANGE IN OWNERSHIP – FORECLOSURE**

12 Reference: Sections 60, 62, Revenue and Taxation Code.

13 (a) Mortgage or deed of trust foreclosed by judicial action is a sufficient change in ownership only:

14 (1) After the period of redemption has passed and property has not been redeemed, or

15 (2) Upon redemption when title vests in the original debtor's successor in interest.

16 (b) Deed of trust foreclosed by trustee's sale shall cause a reappraisal as of the date the right of possession vests in
17 the purchaser.

18 (c) A transfer by a trustor in lieu of a trustee's foreclosure sale constitutes a change in ownership.

19 History: Adopted June 29, 1978, effective July 3, 1978.
20 Amended September 26, 1978, effective October 2, 1978.
21 Repealed Old Rule and Adopted New Rule August 16, 1979, effective August 22, 1979.
22 Amended November 13, 1979, effective December 6, 1979.
23 Amended May 5, 1981, effective August 12, 1981.
24 Amended May 11, 1994, effective June 10, 1994. Renumbered, formerly 462 (g).

25 **RULE 462.140. CHANGE IN OWNERSHIP – TRANSFERS RESULTING FROM TAX** 26 **DELINQUENCY**

27 Reference: Section 60, Revenue and Taxation Code.
28 Section 15606, Government Code.

29 Redemption of tax-defaulted property by the assessee shall not be considered as a change in ownership. However, a
30 sale of tax-defaulted property by the tax collector, whether to the former assessee or to any other person, is a change
31 in ownership requiring reappraisal as of the date of the sale.

32 History: Adopted June 29, 1978, effective July 3, 1978.
33 Amended September 26, 1978, effective October 2, 1978.
34 Repealed Old Rule and Adopted New Rule August 16, 1979, effective August 22, 1979.
35 Amended May 5, 1981, effective August 12, 1981.
36 Amended May 11, 1994, effective June 10, 1994. Renumbered, formerly 462 (h).
37 Amended February 4, 1997, effective June 11, 1997.

38 **RULE 462.160. CHANGE IN OWNERSHIP – TRUSTS**

39 References: Sections 60, 61, 62, 63, 63.1, 63.1 note, and 64, Revenue and Taxation Code.
40 Section 15606, Government Code.

41 (a) **CREATION.** General Rule. The transfer by the trustor, or any other person, of real property into a trust is a
42 change in ownership of such property at the time of the transfer.

43 (b) **EXCEPTIONS.** The following transfers do not constitute changes in ownership:

1 (1) Irrevocable Trusts.

2 (A) Trustor-Transferor Beneficiary Trusts. The transfer of real property by the trustor to a trust in which
3 the trustor-transferor is the sole present beneficiary of the trust. However, a change in ownership of trust property
4 does occur to the extent that persons other than the trustor-transferor are or become present beneficiaries of the trust
5 unless otherwise excluded from change in ownership.

6 Example 1: M transfers income-producing real property to revocable living Trust A, in which M is the
7 sole present beneficiary. Trust A provides that upon M's death, Trust A becomes irrevocable, M's brother B becomes
8 a present beneficiary, and income from the trust property is to be distributed to B for his lifetime. Upon M's death,
9 100% of the property in Trust A, representing B's present beneficial interest, undergoes a change in ownership.
10 Where a trustee of an irrevocable trust has total discretion ("sprinkle power") to distribute trust income or property
11 to a number of potential beneficiaries, the property is subject to change in ownership, because the trustee could
12 potentially distribute it to a non-excludable beneficiary, unless all of the potential beneficiaries have an available
13 exclusion from change in ownership.

14 Example 2: H and W transfer real property interests to the HW Revocable Trust. No change in ownership.
15 HW Trust provides that upon the death of the first spouse the assets of the deceased spouse shall be distributed to "A
16 Trust", and the assets of the surviving spouse shall be distributed to "B Trust", of which surviving spouse is the sole
17 present beneficiary. H dies and under the terms of A Trust, W has a "sprinkle" power for the benefit of herself, her
18 two children and her nephew. When H dies, A Trust becomes irrevocable. There is a change in ownership with
19 respect to the interests transferred to the A Trust because the sprinkle power may be exercised so as to omit the
20 spouse and children as present beneficiaries for whom exclusions from change in ownership may apply, and there
21 are no exclusions applicable to the nephew. However, if the sprinkle power could be exercised only for the benefit
22 of W and her children for whom exclusions are available, the interspousal exclusion and the parent/child exclusion
23 would exclude the interests transferred from change in ownership, provided that all qualifying requirements for
24 those exclusions are met.

25 Example 3: Same as Example 2 above, except that "A Trust" is without any sprinkle power. When H dies,
26 A Trust becomes irrevocable. Since A Trust holds the assets for the benefit of W, the two children, and the nephew
27 in equal shares, with any of W's share remaining at her death to be distributed to the two children and the nephew in
28 equal shares, there is a change in ownership only to the extent of the interests transferred to the nephew, providing
29 that the parent/child exclusion of Section 63.1 and the interspousal exclusion of Section 63 apply to the interests
30 transferred to the two children and to W respectively. Upon the death of W, there is a 2 change in ownership to the
31 extent of the interests transferred to the nephew, although the parent/child exclusion of Section 63.1 may exclude
32 from change in ownership the interests transferred to the two children. If A Trust had included a sprinkle power,
33 instead of specifying the beneficiaries of the trust income and principal, then as in Example 2, none of the exclusions
34 would apply.

35 (B) 12 Year Trustor Reversion Trusts. The transfer of real property or ownership interests in a legal entity
36 holding interests in real property by the trustor to a trust in which the trustor-transferor retains the reversion, and the
37 beneficial interest of any person other than the trustor-transferor does not exceed 12 years in duration.

38 (C) Irrevocable Trusts Holding Interests in Legal Entities. The transfer of an ownership interest in a legal
39 entity holding an interest in real property by the trustor into a trust in which the trustor-transferor is the sole present
40 beneficiary or to a trust in which the trustor-transferor retains the reversion as defined in subdivision (b) (1) (B) of
41 this rule. However, a change in ownership of the real property held by the legal entity does occur if Revenue and
42 Taxation Code section 61 (i), 64 (c) or 64 (d) applies because the change in ownership laws governing interests in
43 legal entities are applicable regardless of whether such interests are held by a trust.

44 Example 4: Husband and Wife, partners in HW Partnership who are not original coowners, transfer 70
45 percent of their partnership interests to HW Irrevocable Trust and name their four children as the present
46 beneficiaries of the trust with equal shares. Husband and Wife do not retain the reversion. Under Revenue and
47 Taxation Code section 64 (a) the transfer of the partnership interests to HW Irrevocable Trust is excluded from
48 change in ownership because no person or entity obtains a majority ownership interest in the HW Partnership.

1 (2) Revocable Trusts. The transfer of real property or an ownership interest in a legal entity holding an
2 interest in real property by the trustor to a trust which is revocable by the trustor. However, a change in ownership
3 does occur at the time that a revocable trust becomes irrevocable unless the trustor-transferor remains or becomes
4 the sole present beneficiary or unless otherwise excluded from change in ownership.

5 (3) Interspousal Trusts. The transfer is one to which the interspousal exclusion applies. However, a change in
6 ownership of trust property does occur to the extent that persons other than the trustor-transferor's spouse are or
7 become present beneficiaries of the trust unless otherwise excluded from change in ownership.

8 (4) Parent-Child or Grandparent-Grandchild Trusts. The transfer is one to which the parent-child or
9 grandparent-grandchild exclusion applies, and for which a timely claim has been made as required by law. However,
10 a change in ownership of trust property does occur to the extent that persons for whom the parent-child or
11 grandparent-grandchild exclusion is not applicable are or become present beneficiaries of the trust unless otherwise
12 excluded from change in ownership.

13 (5) Proportional Interests. The transfer is to a trust which results in the proportional interests of the
14 beneficiaries in the property remaining the same before and after the transfer.

15 (6) Other Trusts. The transfer is from one trust to another and meets the requirements of (1), (2), (3), (4), or
16 (5).

17 (c) **TERMINATION.** General Rule. The termination of a trust, or portion thereof, constitutes a change in
18 ownership at the time of the termination of the trust.

19 (d) **EXCEPTIONS.** The following transfers do not constitute changes in ownership:

20 (1) Prior Change in Ownership. Termination results in the distribution of trust property according to the terms
21 of the trust to a person or entity who received a present interest (either use of or income from the property) when the
22 trust was created, when it became irrevocable, or at some other time. However, a change in ownership also occurs
23 when the remainder or reversionary interest becomes possessory if the holder of that interest is a person or entity
24 other than the present beneficiary unless otherwise excluded from change in ownership.

25 Example 5: B transfers real property to Trust A and is the sole present beneficiary. Trust A provides that
26 when B dies, the Trust terminates and Trust property is to be distributed equally to R and S, who are unrelated to B.
27 B dies, Trust A terminates, and the transfers of the Trust property to R and S result in changes in ownership,
28 allowing for reassessment of 100 percent of the real property.

29 (2) Revocable Trusts. Termination results from the trustor-transferor's exercise of the power of revocation and
30 the property is transferred by the trustee back to the trustor-transferor.

31 (3) Trustor Reversion Trusts. The trust term did not exceed 12 years in duration and, on termination, the
32 property reverts to the trustor-transferor.

33 (4) Interspousal Trusts. Termination results in a transfer to which the interspousal exclusion applies.

34 (5) Parent-Child or Grandparent-Grandchild Trusts. Termination results in a transfer to which the parent-child
35 or grandparent-grandchild exclusion applies, and for which a timely claim has been filed as required by law.

36 (6) Proportional Interests. Termination results in the transfer to the beneficiaries who receive the same
37 proportional interests in the property as they held before the termination of the trust.

38 (7) Other Trusts. Termination results in the transfer from one trust to another and meets the requirements of
39 (1), (2), (3), (4), (5), or (6) of subdivision (b).

40 (e) For purposes of this rule, the term "trust" does not include a Massachusetts business trust or similar trust, which
41 is taxable as a legal entity and managed for profit for the holders of transferable certificates which, like stock shares
42 in a corporation, entitle the holders to share in the income of the property. For rules applicable to Massachusetts

1 business trusts or similar trusts, see Section 64 of the Revenue and Taxation Code and Rule 462.180, which address
2 legal entities.

3 History: Adopted June 29, 1978, effective July 3, 1978.
4 Amended September 26, 1978, effective October 2, 1978.
5 Repealed Old Rule and Adopted New Rule August 16, 1979, effective August 22, 1979.
6 Amended November 13, 1979, effective December 6, 1979.
7 Amended May 5, 1981, effective August 12, 1981.
8 Amended November 16, 1994, effective December 16, 1994. Renumbered, formerly 462 (i).
9 Amended September 10, 1997, effective February 20, 1998.

10 **RULE 462.180. CHANGE IN OWNERSHIP – LEGAL ENTITIES**

11 Authority Cited: Section 15606, Government Code.
12 Reference: Sections 60, 61, 62, 63, 64 and 67, Revenue and Taxation Code; Sections 16909 and 17554, Corporations Code;
13 Section 1351, Civil Code.

14 **(a) TRANSFERS OF REAL PROPERTY TO AND BY LEGAL ENTITIES.**

15 General Rule. The transfer of any interest in real property to a corporation, partnership, limited liability company, or
16 other legal entity is a change in ownership of the real property interest transferred. For purposes of this rule, "real
17 property" or "interests in real property" includes real property interests and fractional interests thereof, the transfer of
18 which constitute a change in ownership under Sections 60 and following applicable sections of the Revenue and
19 Taxation Code and under the applicable change in ownership provisions of the Property Tax Rules.

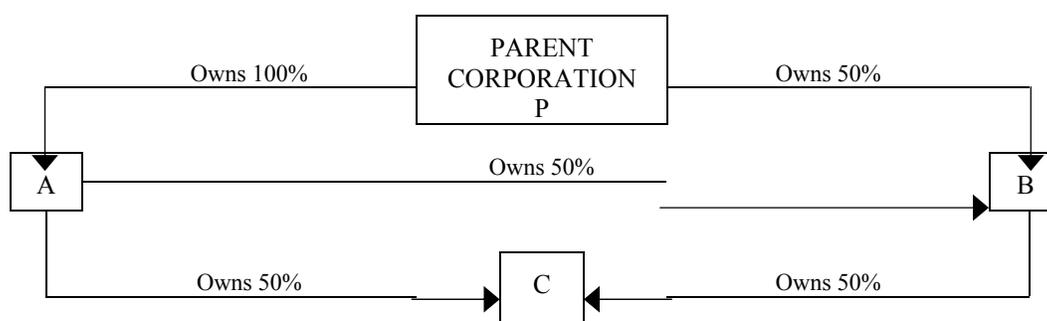
20 **(b) EXCEPTIONS.** The following transfers do not constitute changes in ownership of the real property:

21 (1) **AFFILIATED CORPORATION TRANSFERS.** Transfers of real property between or among affiliated
22 corporations, including those made to achieve a corporate reorganization if:

23 (A) the voting stock of the corporation making the transfer and the voting stock of the transferee
24 corporation are each owned 100 percent by one or more corporations related by voting stock ownership to a
25 common parent, and

26 (B) the common parent corporation owns directly 100 percent of the voting stock of at least one
27 corporation in the chain(s) of related corporations.

28 **SIMPLE EXAMPLE**



29 A transfer of real property by P, A, B, or C to any of the other three corporations would not be a change in
30 ownership.

31 Example 1: Any transfer by C (wholly owned by A and B) to B (wholly owned by A and P) would not be a
32 change in ownership because of those relationships and because P owns 100% of A.

33 If real property is transferred between non-affiliated corporations, only the property transferred shall be deemed to
34 have undergone a change in ownership.

1 (2) **PROPORTIONAL TRANSFERS OF REAL PROPERTY.** Transfers of real property between separate
 2 legal entities or by an individual to a legal entity (or vice versa), which result solely in a change in the method of
 3 holding title and in which the proportional ownership interests in each and every piece of real property transferred
 4 remain the same after the transfer. (The holders of the ownership interests in the transferee legal entity, whether such
 5 interests are represented by stock, partnership interests, or other types of ownership interests, shall be defined as
 6 "original co-owners" for purposes of determining whether a change in ownership has occurred upon the subsequent
 7 transfer of the ownership interests in the legal entity.) This subdivision shall not apply to a transfer of real property
 8 which is also excluded from change in ownership pursuant to subdivision (b)(1) (transfers between or among
 9 affiliated corporations).

10 Examples of Transfers of Real Property in Legal Entities:

11 Example 2: A transfer of real property from A and B, as equal co-tenants, to Corporation X, where A and B
 12 each take back 50 percent of the stock. No change in ownership. However, if A and B each take back 49
 13 percent of the stock and C receives 2 percent of the stock then there will be a change in ownership of the
 14 entire property.

15 Example 3: A transfers Whiteacre to Corporation X and B transfers Blackacre (equal in value to Whiteacre)
 16 to Corporation X. A and B each take back 50 percent of the stock. Change in ownership of 100 percent of
 17 both Whiteacre and Blackacre.

18 Example 4: Corporation X owns Blackacre and Whiteacre (both are of equal value). A and B each own
 19 50% of Corporation X's shares. X transfers Whiteacre to A and Blackacre to B. Change in ownership of
 20 100% of both Blackacre and Whiteacre. However, if Corporation X transfers Whiteacre and Blackacre to
 21 both A and B as joint tenants or as equal tenants in common, there is no change in ownership.

22 Example 5: A transfer of real property from Corporation X to its sole shareholder A. No change in
 23 ownership, even if A is an "original co-owner," because interests in real property, and not ownership
 24 interests in a legal entity, are being transferred.

25 **(c) TRANSFERS OF OWNERSHIP INTERESTS IN LEGAL ENTITIES.**

26 General Rule. The purchase or transfer of corporate stock, partnership interests, or ownership interests in other
 27 legal entities is not a change in ownership of the real property of the legal entity, pursuant to Section 64(a) of the
 28 Revenue and Taxation Code.

29 **(d) EXCEPTIONS.** The following transfers constitute changes in ownership, except as provided in (d)(4) which is
 30 an exclusion from change in ownership:

31 (1) **CONTROL.** When any corporation, partnership, limited liability company, Massachusetts business trust or
 32 similar trust, other legal entity or any person:

33 (A) obtains through a reorganization or any transfer, direct or indirect ownership or control of more than
 34 50 percent of the voting stock in any corporation which is not a member of the same affiliated group of corporations
 35 as described in (b)(1), or

36 (B) obtains through multi-tiering, reorganization, or any transfer direct or indirect ownership of more than
 37 50 percent of the total interest in partnership or LLC capital and more than 50 percent of the total interest in
 38 partnership or LLC profits, or

39 (C) obtains through any transfer direct or indirect ownership of more than 50 percent of the total ownership
 40 interest in any other legal entity.

41 Upon the acquisition of such direct or indirect ownership or control, which may include any purchase or transfer of
 42 50 percent or less of the ownership interest through which control or a majority ownership interest is obtained, all of
 43 the property owned directly or indirectly by the acquired legal entity is deemed to have undergone a change in
 44 ownership.

45 (2) **TRANSFERS OF MORE THAN 50 PERCENT.** When on or after March 1, 1975, real property is
 46 transferred to a partnership, corporation, limited liability company, or other legal entity and the transfer is excluded
 47 from change in ownership under Section 62(a)(2) of the Revenue and Taxation Code, and the "original co-owners"

1 subsequently transfer, in one or more transactions, cumulatively more than 50 percent of the total control or
 2 ownership interests, as defined in subdivision (d)(1), in that partnership, corporation, limited liability company or
 3 legal entity, there is a change in ownership of only that property owned by the entity which was previously excluded
 4 under Section 62(a)(2). However, when such transfer would also result in a change in control under Section 64(c) of
 5 the Revenue and Taxation Code, then reappraisal of the property owned by the corporation, partnership, limited
 6 liability company, or other legal entity shall be pursuant to Section 64(c) rather than Section 64(d).

7 For purposes of this subdivision ((d)(2)), interspousal transfers excluded under Section 63 of the Revenue and
 8 Taxation Code, transfers into qualifying trusts excluded under Section 62(d) of the Revenue and Taxation Code, and
 9 proportional transfers excluded under Section 62(a)(2) of the Revenue and Taxation Code shall not be cumulated or
 10 counted to determine a change in ownership.

11 Examples of Transfers of Interests in Legal Entities:

12 Example 6: A and B each own 50 percent of the stock of Corporation X. Corporation X acquires Whiteacre
 13 from Corporation Y, an unaffiliated corporation in which neither A nor B has interests, and Whiteacre is
 14 reappraised upon acquisition. A transfers 30 percent of Corporation X's stock to C, and B later transfers 25
 15 percent of Corporation X's stock to C. Upon C's acquisition of 55 percent of Corporation X's stock, there is
 16 a change in control of Corporation X under Section 64(c) and a reappraisal of Whiteacre.

17 Example 7: Spouses H and W acquire as community property from the current owners, who are not original
 18 co-owners, 100% of the capital and profits interests in an LLC which owns Blackacre. Each of H and W is
 19 treated as acquiring 50 percent of the ownership interests as defined in subdivision (c) and Revenue and
 20 Taxation Code Section 64(a). No change in control of the LLC; no change in ownership of Blackacre.

21 Example 8: A and B, hold equal interests as tenants in common in Greenacre, a parcel of real property. A
 22 and B transfer Greenacre to Corporation Y and in exchange A and B each receive 50 percent of the
 23 corporate stock. No change in ownership pursuant to Section 62(a)(2). Pursuant to Section 64(d), A and B
 24 become original coowners. A transfers 30 percent of Corporation Y's stock to C (A's child), and B then
 25 transfers 25 percent of Corporation Y's stock to D (B's grandchild). Change in ownership of Greenacre
 26 upon B's transfer to D. Parent/child and grandparent/grandchild exclusions are not applicable to transfers of
 27 interests in legal entities. However, if the same transfers were made by A and B to their respective spouses,
 28 no change in ownership pursuant to Section 63 and Rule 462.220.

29 (3) COOPERATIVE HOUSING CORPORATION. When the stock transferred in a cooperative housing
 30 corporation ("stock cooperative" as defined in subdivision (m) of Section 1351 of the Civil Code) conveys the
 31 exclusive right to occupancy of all or part of the corporate property, unless:

32 (A) the cooperative was financed under one mortgage which was insured under Sections 213, 221(d)(3),
 33 221(d)(4), or 236 of the National Housing Act, as amended, or was financed or assisted pursuant to Sections 514,
 34 515, or 516 of the Housing Act of 1949 or Section 202 of the Housing Act of 1959, or was financed by a direct loan
 35 from the California Housing Finance Agency, and

36 (B) the regulatory and occupancy agreements were approved by the respective insuring or lending agency,
 37 and

38 (C) the transfer is from the housing cooperative to a person or family qualifying for purchase by reason of
 39 limited income.

40 (4) PROPORTIONAL INTEREST TRANSFERS. Transfers of stock, partnership interests, limited liability
 41 company interests, or any other interests in legal entities between legal entities or by an individual to a legal entity
 42 (or vice versa) which result solely in a change in the method of holding title and in which proportional ownership
 43 interests of the transferors and transferees, in each and every piece of property represented by the interests
 44 transferred, remain the same after the transfer, do not constitute changes in ownership, as provided in subdivision
 45 (b)(2) of this rule and Section 62(a)(2) of the Revenue and Taxation Code. This provision shall not apply to a
 46 statutory conversion or statutory merger of a partnership into a limited liability company or other partnership (or a
 47 limited liability company into a partnership) when the law of the jurisdiction of the converted or surviving entity
 48 provides that such entity remains the same entity or succeeds to the assets of the converting or disappearing entity
 49 without other act or transfer and the partners or members of the converting or disappearing entity maintain the same

1 ownership interest in profits and capital of the converted or surviving entity that they held in the converting or
2 disappearing entity.

3 Examples of Excluded Proportional Interest Transfers:

4 Example 9: General Partnership (GP), which owns Whiteacre and in which A and B hold equal partnership
5 interests, converts to Limited Partnership (LP) under the Revised Uniform Partnership Act of 1994
6 (California Corporations Code section 16100 et seq.). As a result of the conversion, A and B each hold 50
7 percent of the LP interests in capital and profits. No change in ownership of Whiteacre upon the
8 conversion, because, under Section 16909 of the Corporations Code, there is no transfer of Whiteacre.
9 Section 62(a)(2) of the Revenue and Taxation Code does not apply. However, if A and B were "original
10 coowners" in GP, they remain "original coowners" in LP.

11 Example 10: Following the conversion in Example 9, A and B each transfer 30 percent of their capital and
12 profits interests in LP to Limited Liability Company (LLC), which is owned equally by A and B. Each
13 retain an equal 20 percent interest in LP. No change in ownership of Whiteacre pursuant to Section 62(a)(2)
14 because A and B own 100 percent of both LP and LLC and their respective proportional interests remain
15 the same after the transfer. Neither section 64(c) nor section 64(d) of the Revenue and Taxation Code
16 applies to this transfer, although A and B become "original coowners" with respect to their interests in
17 LLC.

18 Example 11: A limited partnership (LP), which owns Blackacre and in which C and D hold equal
19 partnership interests, changes its form to a limited liability company (LLC), in which C and D hold equal
20 membership interests, by statutory merger under the California Revised Limited Partnership Act (California
21 Corporations Code section 15611 et seq.) and the Beverly-Killea Limited Liability Company Act
22 (California Corporations Code section 17000 et seq.). No change in ownership of Blackacre upon the
23 change in form because under section 17554 of the California Corporations Code, there is not a transfer of
24 property from LP to LLC. Section 62(a)(2) of the Revenue and Taxation Code does not apply. However, if
25 C and D were "original coowners" in LP, they remain "original coowners" in LLC.

26 (e) PARTNERSHIPS.

27 (1) TRANSFERS OF REAL PROPERTY BY PARTNERSHIPS. General Rule. Except as provided by (b)(2),
28 where the proportional ownership interests remain the same, when real property is contributed to a partnership or is
29 acquired, by purchase or otherwise, by the partnership, there is a change in ownership of such real property,
30 regardless of whether the title to the property is held in the name of the partnership or in the name of the partners
31 with or without reference to the partnership. Except as provided by (b)(2) where the proportional ownership interests
32 remain the same, the transfer of any interest in real property by a partnership to a partner or any other person or
33 entity constitutes a change in ownership.

34 (2) Except as provided in (d)(1)(B) and (d)(2), the addition or deletion of partners in a continuing partnership
35 does not constitute a change in ownership of partnership property.

36 History: Adopted June 29, 1978, effective July 3, 1978.
37 Amended September 26, 1978, effective October 2, 1978.
38 Repealed old rule and adopted new rule August 16, 1979, effective August 22, 1979.
39 Amended November 13, 1979, effective December 6, 1979.
40 Amended May 5, 1981, effective August 12, 1981.
41 Amended March 31, 1982, effective June 10, 1982.
42 Amended May 11, 1994, effective June 10, 1994. Renumbered, formerly 462 (j).
43 Amended and effective December 19, 1995. Amended subdivision (b)(1)(b) to insert the "Simple Example" diagram, at the end of the
44 first sentence. The "Simple Diagram" was inadvertently omitted in the renumbering amendments that previously were approved to
45 former Rule 462.
46 Amended December 9, 1998, effective April 8, 1999. Amended subdivisions (a), (b), (c), (d) and (e) to delete and to update outdated
47 portions of the rule and to clarify other provisions.
48 Amended June 25, 2003, effective October 15, 2003.

RULE 462.200. CHANGE IN OWNERSHIP – MISCELLANEOUS ARRANGEMENTS

Reference: Sections 60, 62, and 67, Revenue and Taxation Code.
Section 1105, Civil Code; Section 662, Evidence Code.
Section 15606, Government Code.

(a) Security transactions. There are transactions that may be interpreted to be either a conveyance of the property or a mere security interest therein, depending on the facts. There is a rebuttable presumption under Civil Code Section 1105 and Evidence Code Section 662 that a grant of title to real property is a transfer of a present interest in the real property, including the beneficial use thereof, equal to a fee interest. In overcoming this presumption, consideration may be given to, but not limited to, the following factors:

(1) The existence of a debt or promise to pay.

(2) The principal amount to be paid for reconveyance is the same, or substantially the same, as the amount paid for the original deed.

(3) A great inequality between the value of the property and the price alleged to have been paid.

(4) The grantor remaining in possession with the right to reconveyance on payment of the debt; and

(5) A written agreement between the parties to reconvey the property upon payment of the debt. The best evidence of the existence of any factor shall be an adjudication of the existence of the factor reflected in a final judicial finding, order, or judgment. Proof may also be made by declarations under penalty of perjury (or affidavits) accompanied by such written evidence as may reasonably be available, such as written agreements, canceled checks, insurance policies, and tax returns.

(b) Deed presumption. When more than one person's name appears on a deed, there is a rebuttable presumption that all persons listed on the deed have ownership interests in property, unless an exclusion from change in ownership applies. In overcoming this presumption, consideration may be given to, but not limited to, the following factors:

(1) The existence of a written document executed prior to or at the time of the conveyance in which all parties agree that one or more of the parties do not have equitable ownership interests. (2) The monetary contribution of each party. The best evidence of the existence of any factor shall be an adjudication of the existence of the factor reflected in a final judicial finding, order, or judgment. Proof may also be made by declarations under penalty of perjury (or affidavits) accompanied by such written evidence as may reasonably be available, such as written agreements, canceled checks, insurance policies, and tax returns.

(c) Holding agreements. A holding agreement is an agreement between an owner of the property, hereinafter called a principal, and another entity, usually a title company, that the principal will convey property to the other entity merely for the purposes of holding title. The entity receiving title can have no discretionary duties but must act only on explicit instructions of the principal. The transfer of property to the holder of title pursuant to a holding agreement is not a change in ownership. There shall be no change in ownership when the entity holding title pursuant to a holding agreement conveys the property back to the principal.

History: Adopted June 29, 1978, effective July 3, 1978.
Amended September 26, 1978, effective October 2, 1978.
Repealed Old Rule and Adopted New rule August 16, 1979, effective August 22, 1979.
Amended May 5, 1981, effective August 12, 1981.
Amended May 11, 1994, effective June 10, 1994. Renumbered, formerly 462 (k).
Amended March 19, 1997, effective June 11, 1997.

RULE 462.220. CHANGE IN OWNERSHIP – INTERSPOUSAL TRANSFERS

Reference: Sections 60, 61, 62, 63, 64, 65, 65.1, and 67, Revenue and Taxation Code.
Section 15606, Government Code.

Notwithstanding any other provision of Rules 460 through 471, a change in ownership shall not include any interspousal transfer, including, but not limited to:

(a) Transfers of ownership interests in legal entities,

(b) Transfers of ownership interests in legal entities resulting in one spouse obtaining control as defined in Section 64(c) of the Revenue and Taxation Code,

Example 1: Husband (H) owns a 30 percent ownership interest in a partnership and wife (W) owns a 30 percent ownership interest in the same partnership. W transfers her interest to H; H now owns a 60 percent ownership interest. There is no change in ownership.

(c) Transfers of ownership interests in legal entities by "original coowners" which would otherwise be cumulated or counted for purposes of Section 64(d) of the Revenue and Taxation Code,

Example 2: Spouses H and W are "original coowners" of a partnership; each originally owned a 50 percent partnership interest. They have previously each transferred a 10 percent interest to X and to Y, leaving H and W each with a 30 percent partnership interest. W transfers a 15 percent interest to H. Although cumulatively more than 50 percent has been transferred, there is no change in ownership.

(d) Transfers to a trustee for the beneficial use of a spouse, or the surviving spouse of a deceased transferor, or by a transfer of such a trust to the spouse of the trustor,

(e) Transfers which take effect upon the death of a spouse,

Example 3: H and W each own a 30 percent interest in General Partnership (GP). H and W transfer their respective partnership interests to the HW Revocable Trust. No change in ownership. Trust provides that upon the death of the first spouse: the assets of the deceased spouse, including partnership interests in GP, shall be distributed to "A Trust", and the assets of the surviving spouse, including partnership interests in GP, shall be distributed to "B Trust." Surviving spouse is the sole present beneficiary of both A Trust and B Trust. No change in ownership upon the death of the first spouse.

(f) Transfers to a spouse or former spouse in connection with a property settlement agreement, including post-dissolution amendment thereto, or decree of dissolution of a marriage or legal separation, (g) The creation, transfer, or termination, solely between spouses, of any co-owner's interest, or (h) The distribution of property of a corporation, partnership, or other legal entity to a spouse or former spouse having an ownership interest in the entity, in exchange for the interest of such spouse in the legal entity in connection with a property settlement agreement or decree of dissolution of a marriage or legal separation.

History: Adopted June 29, 1978, effective July 3, 1978.
Amended September 26, 1978, effective October 2, 1978.
Repealed Old Rule and Adopted New Rule August 16, 1979, effective August 22, 1979.
Amended May 5, 1981, effective August 12, 1981.
Amended March 31, 1982, effective June 10, 1982.
Amended May 11, 1994, effective June 10, 1994. Renumbered, formerly 462 (l).
Amended September 10, 1997, effective February 20, 1998.

RULE 462.240. THE FOLLOWING TRANSFERS DO NOT CONSTITUTE A CHANGE IN OWNERSHIP

Authority Cited: Section 15606, Government Code.
Reference: Sections 60, 61, 62, 62.1, 62.2, 64, 66 and 67, Revenue and Taxation Code; Sections 37, 6401, 6402, Probate Code.

The following transfers do not constitute a change in ownership:

- 1 **(a)** The transfer of bare legal title, e.g.,
- 2 (1) Any transfer to an existing assessee for the purpose of perfecting title to the property.
- 3 (2) Any transfer resulting in the creation, assignment, or reconveyance of a security interest not coupled with
- 4 the right to immediate use, occupancy, possession or profits.
- 5 **(b)** Any transfer caused by the substitution of a trustee.
- 6 **(c)** Any purchase, redemption or other transfer of the shares or units of participation of a group trust, pooled fund,
- 7 common trust fund, or other collective investment fund established by a financial institution.
- 8 **(d)** Any contribution of real property to an employee benefit plan, any acquisition by an employee benefit plan of
- 9 the stock of the employer corporation pursuant to which the employee benefit plan obtains direct or indirect
- 10 ownership or control of more than 50 percent of the voting stock in the employer corporation, or the creation,
- 11 vesting, transfer, distribution, or termination of a participant's or beneficiary's interest in such a plan. The terms used
- 12 herein shall have the meaning ascribed to them in the Employee Retirement Income Security Act of 1974, which is
- 13 codified as United States Code annotated, Title 29, Section 1002. (The term "any contribution" as used in Section
- 14 66(b) of the Revenue and Taxation Code and this section means only those contributions of real property made to an
- 15 employee benefit plan by an employer, a group of employees, or both, without any consideration.)
- 16 **(e)** Any transfer of property or an interest therein between a corporation sole, a religious corporation, a public
- 17 benefit corporation, and a holding corporation as defined in Section 23701h of the Revenue and Taxation Code
- 18 holding title for the benefit of any of the aforementioned corporations, or any combination thereof (including any
- 19 transfer from one such entity to the same type of entity), provided that both the transferee and the transferor are
- 20 regulated by laws, rules, regulations, or canons of the same religious denomination.
- 21 **(f)** Any transfer, occurring on or after January 1, 1983, which results from the reformation or correction of a deed
- 22 which, by mistake, inaccurately describes the property intended to be conveyed, or adds or omits some term not
- 23 agreed to by the parties, or in some other manner fails to express the true intentions of the parties. Example 1: A
- 24 agrees to sell one acre to B. The deed mistakenly describes a two-acre area. Reformation of the deed to describe the
- 25 original acre intended to be transferred is not a change in ownership.
- 26 **(g)** Any transfer, occurring on or after January 1, 1983, of an eligible dwelling unit from a parent(s) or legal
- 27 guardian(s) to a minor child or children or among minor siblings, or to a trust for the sole benefit of such persons,
- 28 resulting from a court order or judicial decree due to the death of one or both of the parents. An "eligible dwelling
- 29 unit" means the dwelling which was the principal place of residence of the minor child or children prior to the
- 30 transfer and remains such after the transfer.
- 31 **(h)** Any transfer of property to a disabled child or ward, whether minor or adult, or to a trust for the sole benefit of
- 32 such person, upon the death of a parent or guardian pursuant to Section 62(n) of the Revenue and Taxation Code.
- 33 **(i)** Any transfer, on or after January 1, 1985, of a mobilehome park or of rental spaces in a mobilehome park
- 34 pursuant to Section 62.1 of the Revenue and Taxation Code.
- 35 **(j)** Any transfer of a mobilehome park or of rental spaces in a mobilehome park pursuant to Section 62.2 of the
- 36 Revenue and Taxation Code.
- 37 **(k)** Any transfer of separate property inherited by a surviving domestic partner, as defined in subdivision (b) of
- 38 section 37 of the Probate Code, by intestate succession upon the death of a registered domestic partner.
- 39 History: Adopted June 29, 1978, effective July 3, 1978.
- 40 Amended September 26, 1978, effective October 2, 1978.
- 41 Repealed old rule and adopted new rule August 16, 1979, effective August 22, 1979.
- 42 Amended November 13, 1979, effective December 6, 1979.
- 43 Amended May 5, 1981, effective August 12, 1981.
- 44 Amended March 31, 1982, effective June 10, 1982.
- 45 Amended May 11, 1994, effective June 10, 1994. Renumbered, formerly 462(m).
- 46 Amended September 10, 1997, effective February 20, 1998.

1 Amended August 6, 2003, effective November 13, 2003.

2 **RULE 462.260. DATE OF CHANGE IN OWNERSHIP**

3 Reference: Sections 60, 61, 62, 63 and 67, Revenue and Taxation Code.
4 Section 15606, Government Code.

5 For purposes of reappraising real property as of the date of change in ownership of real property, the following dates
6 shall be used:

7 **(a) Sales.**

8 (1) Where the transfer is evidenced by recordation of a deed or other document, the date of recordation shall be
9 rebuttably presumed to be the date of ownership change. This presumption may be rebutted by evidence proving a
10 different date to be the date all parties' instructions have been met in escrow or the date the agreement of the parties
11 became specifically enforceable.

12 (2) Where the transfer is accomplished by an unrecorded document, the date of the transfer document shall be
13 rebuttably presumed to be the date of ownership change. This presumption may be rebutted by evidence proving a
14 different date to be the date all parties' instructions have been met in escrow or the date the agreement of the parties
15 became specifically enforceable.

16 **(b) Leases.** The date the lessee has the right to possession.

17 **(c) Inheritance (by will or intestate succession).** The date of death of the decedent.

18 **(d) Trusts.**

19 (1) Revocable. The date the trust becomes irrevocable.

20 Example 1: A creates an inter vivos revocable trust that becomes irrevocable upon A's death. The date of
21 change in ownership is the date of A's death.

22 (2) Irrevocable.

23 **(A)** The date the property is placed in trust.

24 Example 2: A's estate plan provides that upon A's death, property is transferred to an irrevocable testamentary
25 trust. The date of change in ownership is the date of A's death.

26 Example 3: A transfers to an irrevocable inter vivos trust. The date of change in ownership is the date of the
27 transfer.

28 **(B)** The effective date of the immediate right to present possession or enjoyment of a remainder or reversion
29 occurs upon the termination of a life estate or other similar precedent property interest.

30 Example 4: A creates an irrevocable trust, granting A's wife, B, a life estate in the beneficial use of the
31 property with a remainder to C and D who are unrelated to A and B. The creation of a life estate in B is a transfer
32 subject to the interspousal exclusion from change in ownership. Upon B's death, however, a change in ownership
33 occurs because on that date C and D have an immediate right to the present possession and enjoyment of the
34 remainder.

35 NOTE: Refer to Section 462.160 for trust transfer exceptions.

36 History: Adopted June 29, 1978, effective July 3, 1978.
37 Amended September 26, 1978, effective October 2, 1978.
38 Repealed Old Rule and Adopted New Rule August 16, 1979, effective August 22, 1979.
39 Amended May 5, 1981, effective August 12, 1981.
40 Amended May 11, 1994, effective June 10, 1994. Renumbered, formerly 462 (n).

1 Amended March 19, 1997, effective June 11, 1997.

2 **RULE 462.500. CHANGE IN OWNERSHIP OF REAL PROPERTY ACQUIRED TO**
 3 **REPLACE PROPERTY TAKEN BY GOVERNMENTAL ACTION OR EMINENT DOMAIN**
 4 **PROCEEDINGS**

5 Authority Cited: Section 15606, Government Code.
 6 References: Article XIII A, Section 2(d), California Constitution.
 7 Section 68, Revenue and Taxation Code.

8 (a) **GENERAL** . The term "change in ownership" shall not include the acquisition of comparable real property as
 9 replacement for property taken if the person acquiring the replacement real property has been displaced from
 10 property in this state by:

11 (1) Eminent domain proceedings instituted by any entity authorized by statute to exercise the power of
 12 eminent domain, or

13 (2) Acquisition by a public entity, or

14 (3) Governmental action which has resulted in a judgment of inverse condemnation.

15 (b) **DEFINITIONS**. The following definitions govern the construction of the words or phrases used in this section.

16 (1) "Property taken" means real property taken or acquired as provided in (a).

17 (2) "Replacement property" means real property acquired to replace property taken.

18 (3) "Award or purchase price" means the amount paid for "property taken" but shall not include amounts paid
 19 for relocation assistance or any thing other than the replaced real property. The award or purchase price may not
 20 reflect full cash value.

21 (4) "Displaced" means a property owner is removed, expelled, or forced from property as a result of eminent
 22 domain proceedings, acquisition by a public entity in lieu of instituting eminent domain proceedings, or
 23 governmental action resulting in a judgment of inverse condemnation.

24 (5) "Real property" includes land, land improvements, living improvements, manufactured homes, and fixed
 25 machinery and equipment. Personal property is not entitled to relief under this section.

26 (6) "Adjusted base year value" means the base year value, as determined in accordance with Revenue and
 27 Taxation Code Section 110.1, with the adjustments permitted by subdivision (b) of Section 2 of Article XIII A of the
 28 California Constitution and subdivision (f) of Section 110.1.

29 (c) **COMPARABILITY**. Replacement property, acquired by a person displaced under circumstances enumerated
 30 in (a), shall be deemed comparable to the property taken if it is similar in size, utility, and function.

31 (1) The size of property is associated with value, not physical characteristics. Property is similar in size if its
 32 full cash value does not exceed 120 percent of the award or purchase price paid for the property taken. A
 33 replacement property, or portion thereof, that has a full cash value which exceeds 120 percent of the award or
 34 purchase price shall be considered, to the extent of the excess, not similar in size.

35 (2) Property is similar in function and utility if the replacement property is or is intended to be used in the
 36 same manner as the property taken. Property is similar in function and utility if the property taken and the
 37 replacement property both fall into the same category:

38 **Category A:** Single family residence or duplex. Small miscellaneous buildings may be included when
 39 used with residence.

1 **Category B:** Commercial, investment, income, or vacant property. Single family residences and duplexes
 2 that are used as investment property may be considered income property if sufficient proof is provided to the
 3 assessor. Proof may include, but is not limited to, rental or lease agreements, cancelled checks, income tax returns,
 4 or other investment records. If property does not fall within Category A or Category C, it falls within Category B.

5 **Category C:** Agricultural property. "Agriculture" includes farming in all its branches, and, among other
 6 things, includes the cultivation and tillage of the soil, dairying, the production, cultivation, growing, and harvesting
 7 of any agricultural or horticultural commodities, the raising of livestock, bees, furbearing animals, or poultry, and
 8 any practices (including any forestry or lumbering operations) performed incidental to or in conjunction with such
 9 farming operations, including preparation for market and delivery to storage or to market or to carriers for
 10 transportation to market. Agricultural property that is in transition may be considered similar to property described
 11 in Category B if property in its vicinity has been changing from historically agricultural use to another use. Factors
 12 that may be considered to determine whether agricultural property is in transition include, but are not limited to:

- 13 • Restrictions that would prohibit the property taken from converting to property described in Category B
 14 such as the general plan, community plan, or special plan. Current zoning restrictions are not such a
 15 restriction if the general plan, community plan, or special plan contemplate a zoning change.
- 16 • The highest and best use of the property taken.
- 17 • The type of comparable property that was used by the acquiring government body to value the property
 18 taken.

19 (3) To the extent that replacement property, or any portion thereof, is not similar in function, size and
 20 utility, the property, or portion thereof, shall be considered to have undergone a change in ownership.

21 EXAMPLE 1: An owner-occupied single family residence is replaced by a combination dwelling and commercial
 22 property. Relief is applicable to only the dwelling portion of the replacement property; the commercial portion shall
 23 be considered as having changed ownership.

24 EXAMPLE 2: A combination dwelling and commercial property is replaced with an owner-occupied single family
 25 residence. Only the dwelling portion of the property taken shall be considered in determining the comparability and
 26 the amount of relief. The right to relief on the commercial portion of the property taken is waived unless
 27 replacement Category B property is acquired after the date of displacement and a timely request is made for
 28 assessment relief.

29 EXAMPLE 3: A combination dwelling and commercial property is replaced with a Category A single family
 30 residence, and later the displaced person also acquires a separate replacement Category B property. Pro-rata relief
 31 shall be granted on both the replacement Category A single family residence and Category B property.

32 EXAMPLE 4: An owner-occupied single family residence is replaced with an owner-occupied single family
 33 residence and a vacation home. Relief is applicable to both properties.

34 EXAMPLE 5: An owner-occupied single family residence that has a homeowners' exemption is replaced with a
 35 single family residence that is to be used as a rental property. The replacement property qualifies for relief because a
 36 Category A property is replaced by another Category A property.

37 EXAMPLE 6: A duplex in which the property owner lived in one unit and rented the other unit is replaced with two
 38 single family residences, one of which will be owner occupied. Relief is applicable to both properties.

39 EXAMPLE 7: Three single family residences that were owned by a taxpayer and used as rental properties were
 40 replaced by a small apartment complex. Relief is available under Category B if the taxpayer provides proof to the
 41 assessor that the single family residences were held as income property.

42 EXAMPLE 8: A taxpayer owns a 40-acre vineyard which includes an owner-occupied single family residence. The
 43 owner-occupied single family residence is taken along with 5 acres of grapevines. To qualify for relief, the occupied

1 single family residence must be replaced with Category A property; the vineyard must be replaced with other
2 Category C property or, if the property is in transition to another use, it may be replaced with a Category B property.

3 **(d) BASE YEAR VALUE OF REPLACEMENT PROPERTY.** The following procedure shall be used by the
4 assessor in determining the appropriate adjusted base year value of comparable replacement property:

5 (1) Compare the award or purchase price paid by the acquiring entity for the property taken or acquired with
6 the full cash value of the comparable replacement property.

7 (2) If the full cash value of the comparable replacement property does not exceed 120 percent of the award or
8 purchase price of the property taken, then the adjusted base year value of the property taken shall become the
9 replacement property's base year value, regardless of the allocation between land and improvements.

10 (3) If the full cash value of the replacement property exceeds 120 percent of the award or purchase price of
11 the property taken, then the amount of the full cash value over 120 percent of the award or purchase price paid shall
12 be added to the adjusted base year value of the property taken. The sum of these amounts shall become the
13 replacement property's base year value.

14 (4) If the full cash value of the comparable replacement property is less than the adjusted base year value of
15 the property taken, then that lower value shall become the replacement property's base year value.

16 (5) If there is no award or purchase price paid by the acquiring entity (i.e., an exchange) for the property
17 taken, then the full cash value of the acquired property and the full cash value of the replacement property shall be
18 determined by the assessor of the county in which each property is located for the purpose of applying the other
19 provisions of this subdivision. The procedure set forth in subdivision (d)(1) through (d)(4) shall then be applied to
20 determine the replacement property's base year value.

21 (6) A base year value may be reallocated upon the transfer of the replacement property. The appraisal unit
22 that is normally bought and sold in the market place may be used to determine the amount of base year value that is
23 allocated to the property taken.

24 **EXAMPLE 9:** A commercial property, consisting of land and improvements, is taken and replaced with a Category
25 B structure that was built on land that the taxpayer already owned. The land is ineligible for relief because it was
26 previously owned. Despite the ineligibility of the land, the base year value of the property taken (land and
27 improvements) may be transferred to the newly constructed improvements to the extent it meets the value and
28 timing requirements.

29 **(e) OWNERSHIP REQUIREMENTS.** Only the owner or owners of the property taken, whether one or more
30 individuals, partnerships, corporations, other legal entities, or a combination thereof, shall receive property tax relief
31 under this section. Relief under this section shall be granted to an owner(s) of property taken who obtains title to
32 replacement property. The acquisition of an ownership interest in a legal entity which, directly or indirectly, owns
33 real property is not an acquisition of comparable property.

34 **EXAMPLE 10:** A and B each own an undivided 50 percent interest as joint tenants in a home which is taken through
35 eminent domain proceedings by the state. A purchases a replacement property which is comparable to the property
36 taken. B contributes his share of the award or purchase price to a limited partnership which owns a home which is
37 comparable replacement property. A's relief under this section is limited to 120 percent of one-half of the award or
38 purchase price of the property taken. B is entitled to no relief.

39 **EXAMPLE 11:** A partnership composed of two corporations owns commercial property which is taken through
40 eminent domain proceedings. The partnership uses the award or purchase price to acquire Category B property. The
41 partnership is entitled to relief under this section.

42 **EXAMPLE 12:** A partnership composed of two corporations owns commercial property which is taken through
43 eminent domain proceedings. The partnership distributes the award or purchase price to the partner corporations in
44 the same percentage as their ownership interests and the corporations separately or jointly acquire comparable
45 replacement property retaining the same percentage of ownership interest in the partnership. No tax relief may be

1 granted under this section. For purposes of this section, owner means the fee owner or life estate owner of the real
 2 property taken and excludes the lessee thereof unless the lessee owns improvements located on land owned by
 3 another, in which case, the lessee shall be entitled to property tax relief for comparable replacement improvements.

4 **(f) NEW CONSTRUCTION.** Any new construction required to make replacement property comparable to the
 5 property taken shall, to that extent, be eligible for property tax relief, if such new construction is completed on or
 6 after the earliest of the dates listed in subdivision (g)(3), and if a timely request is made for assessment relief.

7 **(g) TIME LIMITS FOR QUALIFICATION.**

8 (1) The provisions of this section shall apply to property acquired as replacement property for property taken
 9 by eminent domain proceedings, public acquisitions, or judgments of inverse condemnation, provided the person
 10 acquiring replacement property makes a timely request for such assessment with the assessor. The replacement
 11 property must be acquired before a request is made. Reassessments and refunds shall be made retroactively to the
 12 date of acquisition of replacement property for property taken, provided a timely request is made therefor.

13 (2) For purposes of this section, a request shall be deemed timely if made within four years after one of the
 14 following dates, whichever is applicable:

15 (A) The date final order of condemnation is recorded or the date the taxpayer vacates the property
 16 taken, whichever is later, for property acquired by eminent domain;

17 (B) The date of conveyance or the date the taxpayer vacates the property taken, whichever is later, for
 18 property acquired by a public entity by purchase or exchange; or

19 (C) The date the judgment of inverse condemnation becomes final or the date the taxpayer vacates the
 20 property taken, whichever is later, for property taken by inverse condemnation.

21 (3) Replacement property shall be eligible for property tax relief under this section if it is acquired on or after
 22 the earliest of the following dates:

23 (A) The date the initial written offer is made for the property taken by the acquiring entity;

24 (B) The date the acquiring entity takes final action to approve a project which results in an offer for or
 25 the acquisition of the property taken;

26 (C) The date the "Notice of Determination," "Notice of Exemption," or similar notice, as required by
 27 the California Environmental Quality Act (CEQA), is recorded by the public entity acquiring the taxpayer's property
 28 and the public project has been approved; or

29 (D) The date, as declared by the court, that the property was taken.

30 (4) No property tax relief shall be granted to replacement property, however, prior to the date of displacement.
 31 The date of displacement shall be the earliest of the following dates:

32 (A) The date the conveyance of the property taken to the acquiring entity or the final order of
 33 condemnation is recorded;

34 (B) The date of actual possession by the acquiring entity of the property taken; or

35 (C) The date upon or after which the acquiring entity may take possession of the property taken as
 36 authorized by an order for possession.

1 **(h) ADMINISTRATION.**

2 (1) The assessor shall consider any of the following documents as proof of actual displacement of a taxpayer
3 when a request has been made for the assessment relief provisions under this section:

4 (A) A certified recorded copy of the final order of condemnation, or, if the final order has not been
5 issued, a certified recorded copy of the order for possession showing the effective date upon or after which the
6 acquiring entity is authorized to take possession of the property taken;

7 (B) A copy of a recorded deed showing acquisition by a public entity; or

8 (C) A certified copy of a final judgment of inverse condemnation.

9 (2) Upon receipt of a taxpayer request and proof of actual displacement, the assessor shall forward to the
10 Board such information regarding the identification of a displaced property as the Board may require. The Board
11 shall review such information to determine whether more than one request for assessment relief has been made as a
12 result of a single taking or governmental acquisition and if so shall advise the appropriate assessor(s).

13 History: Adopted September 13, 1984, effective February 16, 1985.
14 Amended November 18, 1987, effective February 14, 1988.
15 Amended September 8, 2004, effective December 18, 2004.

APPENDIX 2: GLOSSARY OF TERMS

| Term | Definition |
|---------------------------------|--|
| Ad Valorem | Latin phrase meaning "in proportion to the value." In California, the property tax is considered to be an ad valorem tax. |
| Adjusted Base Year Value | The base year value, as determined in accordance with Revenue and Taxation Code section 110.1, with the adjustments permitted by subdivision (b) of section 2 of article XIII A of the California Constitution and section 110.1(f). |
| Adverse Possession | A method of acquiring title to another's property without that owner's consent through obvious occupancy of the land, while claiming ownership for the period of years set by law. |
| Appraisal Unit | That property which persons in the marketplace normally buy and sell as a unit or which is normally valued separately. |
| Assessed Value | The taxable value of a property against which the tax rate is applied. |
| Assessee | Person who owns, claims, possesses, or controls the property on the lien date. |
| Assessment Roll | A listing of all taxable property within a county. It identifies, at a minimum: (1) the property (usually by assessor's parcel number); (2) the tax-rate area where the property is located; (3) the name (if known) and mailing address of the assessee; (4) the assessed value of the property, including separate assessed values for land, improvements, and personal property; (5) penalties (if any); and (6) the amount (if any) of specified exemptions (e.g., homeowners', church, welfare). Distinct assessment rolls include the locally assessed secured and unsecured regular assessment rolls, the locally assessed supplemental assessment roll, and the state-assessed roll (which is added to the locally assessed secured roll). |
| Assessment Year | Assessment year means the period beginning with a lien date and ending immediately prior to the succeeding lien date. |
| Base Year Value | In accordance with section 110.1, a property's base year value is its fair market value as of either the 1975 lien date or the date the property was last purchased, newly constructed, or underwent a change in ownership after the 1975 lien date. |

| Term | Definition |
|----------------------------|--|
| Change in Ownership | A transfer of a present interest in real property, including the beneficial use thereof, the value of which is substantially equal to the value of the fee interest. |
| Condominium | An estate in real property consisting of an undivided interest in common in a portion of a parcel of real property together with a separate interest in space in a residential, industrial, or commercial building on such real property, such as an apartment, office, or store. A condominium may include a separate interest in other portions of such real property. Such estate may be either (1) an estate of inheritance or perpetual estate, (2) an estate for life, (3) an estate for years, such as a leasehold or a sub-leasehold, or (4) any combination of the foregoing. |
| Devise | A transfer of real property by will. The term is also used as a verb to describe the transfer. |
| Displaced | A property owner is displaced when removed, expelled, or forced from property as a result of eminent domain proceedings, acquisition by a public entity in lieu of instituting eminent domain proceedings, or governmental action resulting in a judgment of inverse condemnation. |
| Eminent Domain | The power to take private property for public use by the state, municipalities, and private persons or corporations authorized to exercise functions of public character. |
| Executor | Nominated by the decedent, who files a petition to establish the will's validity. |
| Fair Market Value | The amount of cash or its equivalent that property would bring if exposed for sale in the open market under conditions in which neither buyer nor seller could take advantage of the exigencies of the other and both with knowledge of all of the uses and purposes to which the property is adapted and for which it is capable of being used and of the enforceable restrictions upon those uses and purposes. [Section 110] |
| Fee Interest | The absolute legal possession and ownership of land, property, or rights, including mineral rights. A fee interest can be sold (in its entirety or in part) or passed on to heirs or successors. |
| Full Cash Value | The fair market value as determined in section 110 for either the 1975 lien date or when purchased, newly constructed, or ownership has changed after the 1975 lien date. [Section 110.1] |

| Term | Definition |
|---------------------------------------|---|
| Full Value | Fair market value, full cash value, or such other value standard as is prescribed by the Constitution or in the Revenue and Taxation Code under the authorization of the Constitution. |
| Highest and Best Use | The most profitable use of a property at the time of the appraisal; that available use and program of future utilization that produces the highest present land value; must be legal, physically possible, financially feasible, and maximally profitable. |
| Improvements | All buildings, structures, fixtures, and fences erected on or affixed to the land, all fruit, nut bearing, ornamental trees and vines, not of natural growth, and not exempt from taxation, except date palms between four and eight years of age. |
| Joint Tenancy | Creates undivided interests in property, with each joint tenant owning an equal fractional share; and each is entitled to simultaneous possession and enjoyment of the entire property; right of survivorship. |
| Land Purchase Contract | A contract for the purchase of real estate in which the seller retains title until the buyer makes a specific number of periodic installment payments. A land purchase contract may also be called a land sales contract, installment land contract, contract of sale, real property sales contract, or installment contract. |
| Leasehold Interest (or Estate) | The lessee's interest in property; the right to use and occupy real property during the term of a lease, subject to any contractual restrictions. |
| Legal Title | The title held by the record owner of an interest in real property. The owner of legal title is presumed to be, but is not necessarily, the owner of the beneficial interest in the property. (When property is held in trust, the trustee holds the legal title and the beneficiary holds equitable title.) |
| Lessee | One who has the right to use or occupy property under a lease agreement; a tenant. |
| Lessor | One who holds property title and conveys the right to use and occupy the property under a lease agreement; a landlord. |

| Term | Definition |
|--|---|
| Lien Date | All taxable property (both state and locally assessed) is assessed annually for property tax purposes as of 12:01 a.m. on January 1, which is called the lien date. It is referred to as the lien date because on this date the taxes become a lien against all real property assessed on the secured roll. |
| Partition | A division of property between co-owners resulting in individual ownership of the interest of each. |
| Possessory Interest | Interest in real property that exists as a result of (1) a possession of real property that is independent, durable and exclusive of rights held by others in the real property, and that provides a private benefit to the possessor, except when coupled with the ownership of a fee simple or life estate in the real property in the same person; or (2) a right to the possession of real property, or a claim to a right to the possession of real property, that is independent, durable and exclusive of rights held by others in the real property, and that provides a private benefit to the possessor, except when coupled with the ownership of a fee simple or life estate in the real property in the same person; or (3) possession of taxable improvements on tax-exempt land. |
| Probate | The judicial process for determining the validity of a will. |
| Property Eligible for Homeowners' Exemption | Property that is the principal place of residence of its owner and is entitled to exemption pursuant to section 205.5. |
| Purchase Price | The amount of money a buyer agrees to pay and a seller agrees to accept in an exchange of property rights; purchase price is based on a particular transaction, not necessarily on what the typical buyer would pay or the typical seller would accept. |
| Real Property | The possession of, claim to, ownership of, or right to the possession of land; all mines, minerals, and quarries in the land; all standing timber whether or not belonging to the owner of the land, and all rights and privileges appertaining thereto; and improvements; in California property tax law, the term is synonymous with "real estate." |
| Regular Assessment Roll | Roll covering period starting July 1 of the current calendar year to June 30 of the next year. |
| Remainder Interest | The property that passes to a beneficiary after the expiration of an intervening property interest. |

| Term | Definition |
|------------------------------|--|
| Rescission | The cancellation of a contract by mutual consent of both parties; the act of putting the parties back to their position as if the contract had not existed. |
| Reversion | The return of property to its former owner or his or her heirs at the end of a specific period. |
| Reversionary Interest | The rights of the lessor at the expiration of a lease; the estate returned or due to be returned to the grantor or investor. |
| Structure | An edifice or building; an improvement whose primary use or purpose is for housing or accommodation of personnel, personalty, or fixtures and has no direct application to the process or function of the industry, trade, or profession. |
| Sublease | An agreement in which the lessee in a prior lease conveys the right of use and occupancy of a property to another. |
| Taxable Value | For real property subject to article XIII A of the California Constitution, the base year full value adjusted for any given lien date as required by laws or the full cash value (market value) for the same date (whichever is less) as set forth in section 51(a). For personal property, the full cash value for the lien date each year. |
| Tenancy in Common | A form of concurrent property ownership in which multiple owners have an undivided interest in the property. |
| Trust | An entity created to hold assets for the benefit of certain persons or legal entities, with a trustee managing the trust. |