Amend Revenue and Taxation Code Sections 11292 and 11293 and repeal Sections 11206 and 11294 of the Private Railroad Car Tax Law to change the method of measuring presence in California from car days to mileage.

Source: Honorable George Runner

Existing Law. California law imposes a property tax on privately owned rail road cars (PRRCs) operating on the railroads in the state.[1] The tax is in lieu of all other state and local ad valorem property taxes on PRRCs. The PRRC tax does not apply to railroad companies. Companies that own PRRCs generally haul their own products or lease cars to shippers.

The law specifies the methodology the Board of Equalization (BOE) must use to value PRRCs. The BOE determines value based on acquisition cost less depreciation for each railroad car class in the owner's fleet and time, measured in the number of "car days" each car class spent in the state during the preceding calendar year.

This Proposal. This proposal converts the way physical presence is measured from the days spent in California to the miles traveled. A mileage based system is less complex to administer and conforms to the way other states that impose a PRRC tax measure presence. Additionally, since mileage data broken down by car class is not available, the proposal eliminates the car class distinction for purposes of determining presence in the state. This proposal continues to calculate depreciation for all cars based on a 22- or 25-year life but eliminates the additional depreciation given to cars purchased used. This reduces the revenue impact of the overall proposal and simplifies reporting and administration of the tax. Using acquisition cost, with adjustments for betterments, and maximum allowable depreciation over a 22- or 25-year period, produces values that are reasonably within fair market value range.

Background. PRRCs must be taxed in a manner to reflect their physical presence in California. The law requires the BOE to use "car-days" to determine presence. The car-day count software program the BOE uses to measure presence is near the end of its useful life. Switching to a mileage-based system would avoid the cost to replace the software, which BOE staff estimates would cost at least $500,000.

The car-day count system measures the presence of private railroad cars within California. Each month, five railroad car companies report border crossing data (movements in and out of California) to the BOE. A car-day count computer program processes this data and determines the number of days each car was physically present in California during the calendar year immediately preceding each lien date. The results are converted to an equivalent number of cars, for a specific car class based on the American Association of Railroads Alpha designation, as illustrated below.

Applying the car-day method, the value of the car is multiplied by the number of days per year that each car was present in California. For example, if a company's tank cars were physically present in California for a total of 730 days, the equivalent number of tank cars would be 2 (730 days / 365 days). This amount is multiplied by the tank car's

[1] Part 6 of Division 2 of the Revenue and Taxation Code (commencing with Section 11201).

value, which is calculated using a statutorily required method to arrive at the taxable value of this class of PRRCs.[2]

Except for California, all states that impose a PRRC tax use mileage-based systems. In addition, railroad companies use mileage to bill PRRC owners traveling on their systems. Thus, mileage data is already captured. Switching to mileage reduces the compliance burden on PRRC owners and railroads to comply with California's unique car-day system. The resulting system will be less complicated and less costly for the BOE to administer and will reduce compliance costs for PRRC owners railroads. Streamlining the administration of this tax allows BOE to assign more senior staff to other duties.

The BOE sponsored an identical proposal last year (AB 2262, Frazier) which was held in the Senate Appropriations Committee.

Revenue Impact. Comparing mileage and car-day data from the last three years, BOE staff estimates that the switch to mileage would result in an annual revenue loss of about $1,160,000 to $1,200,000. This would be offset by canceling a car registration subscription that costs $13,000 per year and avoiding the $500,000 cost to replace the aging car-day counting software.

The state retains the revenue from the Private Railroad Car Tax. In 2014, the tax revenue from 221 PRRC companies was $8,921,960.[3] Annual tax revenues vary with the level of new car investments and California economic activity. The previous six years values and billings are as follows:

Year	Total Full Value	Total Assessed Value	Tax Rate	Amount of Tax
2009	$922,188,463	$535,934,266	1.097%	$5,879,199
2010	$865,148,570	$564,386,221	1.102%	$6,219,536
2011	$901,214,873	$732,007,910	1.107%	$8,103,328
2012	$879,655,573	$720,268,858	1.108%	$7,980,579
2013	$932,432,014	$753,819,189	1.108%	$8,352,317
2014	$1,055,786,235	$806,687,203	1.106%	$8,921,960

Mileage-based assessments could result in tax liability for individual companies that is either higher or lower depending on their business operation.

[2] In addition, to comply with the Federal Railroad Revitalization and Regulatory Reform Act (the 4-R Act), the BOE must assess rail transportation property, including PRRCs, at a percentage of full value. In 2013, the percentage was 80.46%.

[3] 2013 Private Railroad Car Assessment Value Recommendations
Private Railroad Car Tax Historical Data 1938 to present.
Private Railroad Companies

Section 11206 of the Revenue and Taxation Code is repealed:

~~11206. "Class of private railroad cars" means the Association of American Railroad's, or successor organization's, one letter alpha component of its car type codes as contained in that organization's Exhibit D of the UMLER specification manual or successor exhibit.~~

Section 11292 of the Revenue and Taxation Code is amended to read:

11292. In making the assessment, the board shall value the cars ~~by class~~ based on the owner's acquisition cost, including additions and betterments, less depreciation. The depreciation shall be computed for these enumerated Association of American Railroad's, or successor organization's, car type groups on a straight-line basis with the indicated depreciable life schedules with a maximum of 80 percent depreciation allowed.

(a) Stack cars (alpha S): 22 years ~~minus the age at acquisition~~.

(b) Lightweight, low profile intermodal cars (alpha Q): 22 years ~~minus the age at acquisition~~.

(c) Flat cars (alpha F): 22 years ~~minus the age at acquisition~~.

(d) Conventional intermodal cars (alpha P): 22 years ~~minus the age at acquisition~~.

(e) Vehicular flat cars (alpha V): 22 years ~~minus the age at acquisition~~.

(f) All other cars (all other alphas): 25 years ~~minus the age at acquisition~~.

~~(g) Betterments: the remaining depreciable life of the car to which the betterment is applied.~~

Acquisition cost is defined as the expenditures required to be capitalized by generally accepted accounting principles.

Section 11293 of the Revenue and Taxation Code is amended to read:

11293. In making an assessment, the board shall determine the ~~average number of each class~~ physical presence of private railroad cars ~~physically present~~ in the state in the calendar year immediately preceding the fiscal year in which the tax is imposed upon the basis of ~~car days~~ mileage. The board shall multiply the ~~average number~~ ratio so determined by the value of ~~a car of that class~~ the cars as determined under Section 11292 and use the product for the assessment of the cars.

Section 11294 of the Revenue and Taxation Code is repealed.

~~11294. In determining the averages required in Section 11293, the board shall exclude from the California factor car mileage, car days or such other data which occurs while cars are not qualified for revenue service and are in a repair facility in this state requiring and undergoing or awaiting remodeling, overhaul, renovation, conversion or repair which necessitates total labor in excess of 10 man-hours.~~

~~Car days excluded pursuant to this section shall not exceed 90 days per car unless the claimant provides substantiation of the necessity for the additional days in such form as prescribed by the board.~~