



STATE BOARD OF EQUALIZATION

1020 N STREET, SACRAMENTO, CALIFORNIA
 (P.O. BOX 1799, SACRAMENTO, CALIFORNIA 95808)
 (916) 445-4952

GEORGE R. REILLY
 First District, San Francisco

ERNEST J. DRONENBURG
 Second District, San Francisco

WILLIAM M. BENNETT
 Third District, San Rafael

RICHARD NEVINS
 Fourth District, Pasadena

KENNETH CORY
 Controller, Sacramento

DOUGLAS D. BELL
 Executive Secretary

No. 79/178

October 16, 1979

TO COUNTY ASSESSORS:

LEGISLATION AFFECTING MANDATORY AUDITS

Senate Bill 884 (Chapter 518) was signed by the Governor on September 7, 1979. As the bill did not contain an urgency clause, it will take effect on January 1, 1980.

The legislation makes revisions in Revenue and Taxation Sections 469, 533, 534, and 1605. The revisions of any consequence occurred in Section 469 and are as follows:

- (1) Increases the minimum full value of a mandatory audit from \$100,000 to \$200,000.
- (2) Includes trade fixtures with personal property in determining the minimum full value of a mandatory audit.

There are two questions raised by this legislation. First, what did the Legislature intend to include within the term "trade fixtures?" Second, in calculating the mandatory audit workload for the second half of the 1979/80 fiscal year and future years, should the revisions apply to prior years under audit?

The term "trade fixtures" is not defined in the Revenue and Taxation Code. However, Section 1019 of the California Civil Code describes a trade fixture as property a tenant installs for purposes of trade and which does not become an integral part of the building. We believe that when the Legislature used the words "trade fixtures," it was referring to any fixtures which are used in connection with a trade or business. This would include any property qualifying as fixtures under the definition in the business property statement, plus machinery and equipment classified as improvements. Regarding the application to prior year audits, beginning with the January 1, 1980, effective date of the legislation, an account will be considered a mandatory audit if the combined full value of the personal property, fixed machinery and equipment, and fixtures is \$200,000 or more for the immediately preceding four consecutive years, and providing one or more of the years had not been included in a previous audit.

We will be proposing revisions to Property Tax Rule 192, Mandatory Audits, during the next few months. Any questions should be directed to Bud Florence of this division.

Sincerely,

Verne Walton, Chief
 Assessment Standards Division



STATE BOARD OF EQUALIZATION

1020 N STREET, SACRAMENTO, CALIFORNIA
(P.O. BOX 1799, SACRAMENTO, CALIFORNIA 95808)
(916) 445-4982

GEORGE R. REILLY
First District, San Francisco
ERNEST J. DRONENBURG, JR.
Second District, San Diego

WILLIAM M. BENNETT
Third District, San Rafael

RICHARD NEVINS
Fourth District, Pasadena

KENNETH CORY
Controller, Sacramento

DOUGLAS D. BELL
Executive Secretary

No. 80/53

March 25, 1980

TO COUNTY ASSESSORS:

MANDATORY AUDITS - BANKS AND INSURANCE COMPANIES

Our letter to you dated October 16, 1979 (No. 79/178) explained Senate Bill 884 (Chapter 518) which affected mandatory audits by raising the \$100,000 limit to \$200,000 and included trade fixtures with personal property in determining the \$200,000 amount. Since banks' and insurance companies' personal property is exempt, they have been outside the mandatory audit category.

However, since January 1, 1980, mandatory audits are determined by adding personal property and trade fixtures. Therefore, banks and insurance companies whose trade fixtures total \$200,000 full value for each of the four lien dates 1975-1978 and/or 1976-1979, must be audited on or before June 30, 1980. Waivers should be obtained if the mandatory audits cannot be completed by that deadline.

Property statements on file plus real property building/appraisal records should be good sources in establishing a listing of banks and insurance companies which are now mandatory audits.

Please contact Bud Florence or Mike Shannon of this division if you have any questions; their telephone number is (916) 445-4982.

Sincerely,

Verne Walton, Chief
Assessment Standards Division

VW:cr