



STATE OF CALIFORNIA

STATE BOARD OF EQUALIZATION

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June 13, 1988

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Executive Director
No. 88/41

TO COUNTY ASSESSORS:

POSSESSORY INTERESTS - OPTIONS TO RENEW
ASSEMBLY BILL 114 - 1987

Chapter 1094 of the Statutes of 1987 (Assembly Bill 114) excludes from the term "renewal," for the purposes of subdivision (b) of Revenue and Taxation Code Section 61 relating to change in ownership of certain taxable possessory interests, the granting of certain options to renew a possessory interest, whether the option is granted in the original agreement or subsequently. The affect of this bill is to expressly state that the granting of an option to renew an existing possessory interest in tax-exempt real property is not within the definition of change in ownership.

It should be recognized that the bill deals with the granting of an option as distinguished from the exercising of the option. A provision of a lease giving an option to renew the lease creates only a contractual right. It does not transfer any interest in the land until the option is exercised. For example, the exercise of an option to renew a possessory interest would be considered a change in ownership as of the date the option is exercised.

Chapter 1094 states that it is declaratory of existing law. This statement is consistent with the Board's view that the exercise of an option to renew, not the granting of an option to renew, would result in a change in ownership.

Since Chapter 1094 of the Statutes of 1987 (Assembly Bill 114) is an urgency statute, it is effective September 25, 1987. Enclosed is a copy of this legislative bill for your information.

Sincerely,

Verne Walton, Chief
Assessment Standards Division

VW:sk
Enclosure