State of California

790.0012

Memorandum

To : Mr. Verne Walton

Date : January 14, 1987

From : Richard H. Ochsner RHO

Subject : Supplemental Assessments and Proposition 8

This is in response to your memo of January 9, 1987, requesting advice regarding the valuation of new construction for supplemental assessment purposes in cases where the market value of the associated property has declined since the preceding lien date. You cite an example of property which has a taxable value of $100,000 on March 1. The market value declines to $50,000 on September 1 (excluding new construction). On September 1, new construction valued at $10,000 is completed. Your second example is a bit more complicated but follows the same pattern.

As we discussed, it is my interpretation of Revenue and Taxation Code sections 75.10 and 75.11 that the assessor is required to appraise the new construction at its full cash value and place a supplemental assessment on the roll which reflects the difference between this new base year value and the taxable value on the current roll. Since the amount reflected on the current roll for the new construction is zero, the assessor would place a supplemental assessment on the supplemental roll in the amount of $10,000.

This may result in a total assessed value on September 1 which exceeds the current fair market value of the property. That is the way the system is intended to work, however. The taxpayer is protected by the assessment appeal mechanism. If his property has been overvalued on the lien date, he can request equalization. Thus, the taxpayer is protected against lien date overvaluation.

On the otherhand, if we assume that the property in your example had a market value on March 1 of $100,000, then there is no basis for adjustment since the amount of taxes for the coming fiscal year are fixed on the lien date in accordance with the value of the property at that time. Thus, the taxpayer should pay a tax on that property for the coming fiscal year based upon the $100,000 value, regardless of whether that value later decreases or increases.

At the time the new construction is completed, the taxpayer is liable for additional taxes, prorated over the remaining fiscal year, reflecting the amount of the new property. The supplemental assessment law treats this as a separate issue. The taxation of this new property is not affected by the taxation of the remaining property.

Of course, any decline in value of the total property since the previous lien date can be recognized on the following lien date. This is the appropriate way to reflect the decline in value under our ad valorem property tax system. I trust that the above discussion will resolve this issue for you.

RHO:cb

cc: Mr. Gordon P. Adelman
Mr. Robert H. Gustafson