



STATE OF CALIFORNIA

STATE BOARD OF EQUALIZATION
1020 N STREET, SACRAMENTO, CALIFORNIA
(PO BOX 1799, SACRAMENTO, CALIFORNIA 95808)
(916) 445-6479

GEORGE R. REILLY
First District, San Francisco

ERNEST J. DRONENBURG, JR.
Second District, San Diego

WILLIAM M. BENNETT
Third District, San Rafael

RICHARD NEVINS
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Controller, Sacramento

DOUGLAS D. BELL
Executive Secretary

February 11, 1981

No. 81/23

TO COUNTY ASSESSORS, COUNTY COUNSELS, ASSESSMENT APPEALS BOARDS,
AND OTHER INTERESTED PARTIES:

PROPERTY TAXES RULE 463

Enclosed is a copy of a notice of public hearing to be held March 30, 1981, at 2:00 p.m., in Room 102, 1020 N Street, Sacramento, California, on proposed amendments to Rule 463, Newly Constructed Property.

The proposed amendments to Rule 463 are necessitated by 1979 legislation further implementing Article XIII A of the Constitution by the addition of a new Chapter 3, entitled New Construction, to Part 0.5 of Division 1 of the Revenue and Taxation Code.

Written comments for the Board's consideration, or requests to present testimony at the public hearing should be directed to me at the above address. Questions regarding the content of the rule amendments should be directed to Glenn Rigby, Assistant Chief Counsel, Property Taxes, (916) 445-4588.

Sincerely,

Janice Masterton
Calendar Clerk

JM:ms
Enclosures

NOTICE OF PROPOSED REGULATORY ACTION
BY THE
STATE BOARD OF EQUALIZATION

NOTICE IS HEREBY GIVEN that the State Board of Equalization, pursuant to the authority vested by Section 15606 of the Government Code, and to implement, interpret, or make specific Division 1, Part 0.5, Chapter 3 of the Revenue and Taxation Code, and Article XIII A, Sections 1 and 2 of the California Constitution, proposed to amend Regulation 463 in Title 18 of the California Administrative Code, relating to property tax.

PUBLIC NOTICE: Notice is further given that a public hearing relevant to this action will be held in Room 102, Consumer Affairs Building, 1020 N Street, Sacramento, California, at 2:00 p.m., on March 30, 1981. Any persons interested may present statements or arguments orally at that time and place.

INFORMATIVE DIGEST: The purpose of amending this regulation is to rewrite the existing regulation to cause it to be more definitive through the addition of examples and rewording for clarity.

ESTIMATE OF COST OR SAVINGS: The State Board of Equalization has determined that the proposed change will result in no direct or indirect cost or savings to any State, local, or Federal agency, school district, nor in Federal funding to the State.

INQUIRIES: Inquiries concerning this matter may be directed to Janice Masterton, at (916) 445-6479.

WRITTEN COMMENTS: Written statements or arguments will be considered by the Board if received by March 30, 1981; written statements or arguments are requested by March 12, 1981.

STATEMENT OF REASONS: The Board has prepared a statement of the purpose of the proposed action and the information relied upon in making the change, which statement is available to the public upon request.

The State Board of Equalization upon its own motion or at the instance of any interested person may adopt the changes proposed without further notice on or after March 30, 1981.

Dated: February 4, 1981

STATE BOARD OF EQUALIZATION

Douglas D. Bell
Executive Secretary

Rule No. 463. NEWLY CONSTRUCTED PROPERTY

Reference Article XIII A, Sections 1 and 2, California Constitution

- (a) When real property, or a portion thereof, is newly constructed after the 1975 lien date, the assessor shall ascertain the full value of such "newly constructed property" as of the date of completion. This will establish a new base year full value for only that portion of the property which is newly constructed, whether it is an addition or alteration. The taxable value on the total property shall be determined by adding the full value of new construction to the taxable value of preexisting property reduced to account for the taxable value of property removed during construction. The full value of new construction is only that value resulting from the new construction and does not include value increases not associated with the new construction.
- (b) "Newly constructed" or "new construction" means and includes:
- (1) Any substantial addition to land or improvements, including fixtures, such as adding land fill, retaining walls, curbs, gutters or sewers to land or constructing a new building or swimming pool or changing an existing improvement so as to add horizontally or vertically to its square footage or to incorporate an additional fixture, as that term is defined in this section.
 - (2) Any substantial physical alteration of land which constitutes either a major rehabilitation of the land or results in a change in the way the property is used.

Examples of alterations to land to be considered new construction are:

Site development of rural land for the purpose of establishing a residential subdivision.

Altering rolling, dry grazing land to level irrigated crop land.

Preparing a vacant lot for use as a parking facility.

In any instance in which an alteration is substantial enough to require reappraisal, only the value of the alteration shall be added to the base year value of the pre-existing land or improvements. Increases in land value caused by appreciation or a zoning change rather than new construction shall not be enrolled, for example:

1. Land value 1975	=	\$10,000	
2. Land value 1978	=	\$20,000	
3. Value of alteration 1978	=	\$ 5,000	
4. Value of structure Added 1978	=	\$75,000	
1979 <u>Roll-roll</u> value (1+3+4)	=	\$90,000	(must be adjusted to reflect appropriate indexing)

Alterations to land which do not constitute a major rehabilitation or which do not result in a change in the way the property is used shall not result in a reappraisal.

Example 1. Off-site improvements.

2. Construction of a single-family residence on a residential site.

- (3) Any physical alteration of any improvement which converts the improvement or any portion thereof to the substantial equivalent of a new structure or portion thereof or changes the way in which the portion of the structure that had been altered is used; ~~e.g., physical alterations to an old structure to make it the substantial equivalent of a new building without any change in the way it is used or alterations to a warehouse that makes it usable as a retail store or a restaurant.~~ Only the value, not necessarily the cost, of the alteration shall be added to the appropriately indexed base year value of the pre-existing structure.

Examples of alterations to improvements to be considered new construction are:

Physical alterations to an old structure to make it the substantial equivalent of a new building without any change in the way it is used.

Alterations to a warehouse that makes it usable as a retail store or restaurant.

- (4) Excluded from alterations that qualify as "newly constructed" is that portion of construction or reconstruction performed for the purpose of normal periodic maintenance and repair; ~~e.g., routine annual preparation of agricultural land or interior or exterior painting, replacement of roof coverings or the addition of aluminum siding to improvements or the replacement of worn parts.~~

Examples of alterations that do not qualify as new construction:

Routine annual preparation of agricultural land.

Interior or exterior painting.

Replacement of roof coverings.

Addition of siding to improvement that has another type of siding.

Replacement of worn machine parts.

Replacement of built-in appliances.

(5) Any substantial physical rehabilitation, renovation or modernization of any fixture which converts it to the substantial equivalent of a new fixture or any substitution of a new fixture. Substantial equivalency ~~shall~~ may be ascertained by comparing the productive capacity, normally expressed in unit per hour, of the rehabilitated fixture to its original productive capacity.

(c) For purposes of this section "fixture" is defined as an improvement whose use or purpose directly applies to or augments the process or function of a trade, industry, or profession.

(d) New construction in progress on the lien date shall be appraised at its full value on such date and each lien date thereafter until the date of completion, at which time the entire portion of property which is newly constructed shall be reappraised at its full value.

(e) For purposes of this section, the date of completion is the date the property or portion thereof is available for use. In determining whether the real property or a portion thereof is available for use, consideration shall be given to the date of the final inspection by the appropriate governmental official, or, in the absence of such inspection, the date the prime contractor fulfilled all of his contract obligations, or in the case of fixtures, the date of completion of testing of machinery and equipment.

(f) Newly constructed property does not include real property which is timely reconstructed after a disaster where the full value of such real property, as reconstructed, is substantially equivalent to its full value prior to the disaster. If the values are not substantially equivalent, the assessor shall on lien date following restoration:

(1) Enroll the restored property at its former taxable value plus or minus the appropriate inflation adjustment, or

(2) Enroll the current market value of the restored property if the current market value is less than the value found in Item 1 above, ~~or~~

(3) When the value found in Item 1 above ~~plus~~ is enrolled, the market value of any newly constructed property will be added to it if it is determined that new construction has occurred. For the purpose of determining whether new construction has occurred under this subsection,

~~For purposes of this subsection only~~, newly constructed property does not include any land, improvement or fixture that is restored, reconstructed or repaired in a timely manner following a disaster and which is substantially equivalent in size, use and quality to that which existed prior to the disaster.

(g) For property under reconstruction or restoration as a result of disaster which changes ownership prior to the completion of reconstruction or restoration, the value of the land and existing improvements shall be determined as of the date of the change in ownership but the value of any reconstruction or restoration which occurs following the transfer shall be determined as of the date of completion in accordance with the provisions applicable to new construction but without regard to the "substantially equivalent" test normally applicable to property reconstructed following a disaster.