



STATE OF CALIFORNIA

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August 19, 1985

TO COUNTY ASSESSORS:

DOUGLAS D BELL
Executive Secretary

TRACKING OWNERSHIP INTERESTS

No. 85/85

Recently, we have received some inquiries regarding the necessity of tracking undivided ownership interests in real property. Pursuant to Article XIII A, the value of real property must be frozen (except for an inflation factor not to exceed two percent) unless there is a change in ownership. Of course, completion of new construction also requires revaluation; however, this letter is only concerned with the change in ownership aspect. It is the requirement that values be frozen for property remaining in the same ownership that brings about the necessity of tracking.

For example, assume that two people, person A and person B, acquire a piece of real property as equal co-owners and the new base-year value is \$100,000 (i.e., \$50,000 for each undivided one-half interest). Three years later, person B transfers his interest to person C. The market value of the interest at the time of transfer is \$75,000. The property, at this point, has a split base-year value. The base-year value of person A's property is \$50,000 (which is one-half of the \$100,000 when the original base-year value was created), and the base-year value of person C's interest is \$75,000. The total value showing on the roll would be \$125,000. (This letter will, for the sake of simplicity, ignore factoring).

Two years later, person C transfers his interest to person D. The value of the interest at the date of transfer is \$90,000. It is at this point that "tracking" becomes critical. The base-year value of person A's interest is still \$50,000. The total value showing on the roll should be \$140,000 (i.e., \$50,000 + \$90,000). If the interests are not "tracked" the total value showing on the roll would be \$152,500 which is \$90,000 (new base-year value of the interest transferred) plus \$62,500 (one-half of the roll value rather than base-year value). As this demonstrates, failure to track split base-year interests separately leads to inappropriate values. To enroll \$152,500 rather than \$140,000 has the effect of either 1) overvaluing person D's interest at \$102,500 or 2) revaluing person A's interest at \$62,500. Neither of the foregoing occurrences are within legal requirements.

The need for tracking has been further amplified since the implementation of supplemental assessments. When person B transferred his interest to person C a supplemental assessment in the amount of \$25,000 would be in order (assuming the transfer occurred on or after July 1, 1983). Further, when person C transferred his interest to person D another supplement assessment would be necessary, and it should be in the amount of \$15,000 (e.g., \$90,000 - \$75,000). Failure to properly process the supplemental assessment could result in supplemental assessment in the amount of \$27,500 (e.g., \$90,000 - \$62,500) or perhaps some other inappropriate amount.

TO COUNTY ASSESSORS:

-2-

Although it is difficult administratively, it is more important to track undivided interests now than it has ever been in the past.

While we feel that tracking is clearly required, we do not feel that separate assessment of these interests is required.

If you have any questions regarding this subject, please contact our Technical Services Section at (916) 445-4982.

Sincerely,



Verne Walton,
Chief Assessment Standards Division

VW:wpc
AL-04D-2427A