STATE OF CALIFORNIA

STATE BOARD OF EQUALIZATION
1020 N STREET, SACRAMENTO, CALIFORNIA
PO BOX 1799, SACRAMENTO, CALIFORNIA 95808
916-445-4982

January 8, 1986

No. 86/04

TO COUNTY ASSESSORS:

APPLYING PROPOSITION 8 TO FRACTIONAL
INTERESTS IN REAL PROPERTY

In a recent advisory letter (85/85, dated August 19, 1985) we stressed the importance of tracking multiple base year values of undivided interests in real property. In this letter, we will present our position on how Proposition 8 - that is, Article XIII A, Section 2(b) of the Constitution, which allows reductions in the taxable value of real property - should be applied to real property which has more than one base year because of transfers of fractional interests.

It is our opinion that Section 50, Revenue and Taxation Code, governs the value to be placed on the roll for the first lien date following a change in ownership of an undivided interest in real property; and that, for succeeding lien dates, Section 51, Revenue and Taxation Code, is controlling. The following example will illustrate our position.

A and B own real property as equal co-owners. A's base year value for the 1985-86 tax roll was $50,000 and B's base year value was $75,000, for a total enrolled value of $125,000. In November of 1985, B sells his one-half interest to C for $90,000. Assuming that this is representative of market value, the value of the entire property would then be $180,000. As of the date of transfer of B's interest, the new base year value of the property is $140,000 (A's $50,000 plus C's $90,000). The supplemental assessment to the 1985-86 roll is $15,000 ($140,000 - $125.000).

As of March 1, 1986, the fair market value of the entire property has declined from $180,000 to $160,000.

Q. What value should be placed on the 1986-87 tax roll?

A. $131,000 (the factored base year value of A's interest - $50,000 x 1.02, plus the fair market value on the lien date of C's interest - $80,000).

Q. Assuming that the decline in value was being measured as of March 1, 1987, what would be the appropriate taxable value to be enrolled on the 1987-88 Section 601 roll?

A. $142,800 ($140,000 x 1.02). The current market value of the entire property (assume $160,000, the same as on March 1, 1986) is greater than its factored base year value, so factored base year value must be enrolled.

Section 50 requires that valuation on the first lien date following a change in ownership of real property must be accomplished by treating each fractional interest separately to determine whether the base year value or current market value is the lower amount. Section 51, which in its subdivision (e) provides that this comparison shall be based upon the value of the entire appraisal unit as it is bought and sold in the market, controls the taxable value for all lien dates following the lien date on which the base year value is first enrolled.

In summary, treat ownership interests separately when valuing for the first lien date enrollment; thereafter, combine ownership interests as a total unit. Please call our Technical Services Unit at (916) 445-4982 if you have any questions about the tracking of undivided interests.

Sincerely,

Verne Walton, Chief
Assessment Standards Division

VW:wpc
AL-04D-2427A