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TO COUNTY ASSESSORS:

NEW CONSTRUCTION—PORTION OF A STRUCTURE

On May 22, 2014, the State Board of Equalization (BOE) adopted Assessors' Handbook Section 410, *Assessment of Newly Constructed Property* (AH 410). This addition to the Assessors' Handbook series discusses the statutes, regulations, and the various statutory exclusions that pertain to newly constructed real property.

During the extensive interested parties process conducted prior to the adoption of AH 410, there was considerable discussion regarding the assessment of new construction associated with a portion of an existing structure, and whether these assessments were permitted under California statutes and regulations. It was further suggested that these types of assessments would *begin* for routine kitchen or bathroom remodels as a result of the text in AH 410 and its adoption as a guide to county assessors. This suggestion is inaccurate.

In 1978, shortly after the adoption of article XIII A of the California Constitution (Proposition 13), Property Tax Rule¹ 463, *Newly Constructed Property*, was adopted. Rule 463 has contained the language regarding the new construction of a portion of a structure since its inception. Currently, the Rule 463 language provides:

(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. . . . [Emphasis added.]

When appropriate, county assessors have been assessing new construction of a portion of a structure since 1978. We believe that assessors are not adding value, for example, when a kitchen or bathroom is remodeled unless the new construction is so extensive that it renders that portion of the structure substantially equivalent to new. Generally, remodeling activity consists of replacing or substituting an item that is fundamentally the same type or utility for an item that is exhausted, worn out, or inadequate. Replacements made under these circumstances are considered normal maintenance which do not make the improvement, or a portion thereof, substantially equivalent to new and are not considered assessable new construction. This is the long-standing policy of the BOE consistent with the provisions of Rule 463, and the inclusion of this policy in AH 410 does not alter the way county assessors have viewed this type of new construction activity since 1978.

¹ All references to Rules or Property Tax Rules are section references to Title 18, Public Revenues, California Code of Regulations.

The adoption of AH 410 has provided county assessors and others interested in the assessment of property in California with a good reference document. The text regarding the assessment of a portion of an existing structure is merely a reiteration of a 36-year old provision of Rule 463 and does not alter how BOE staff will view the new construction decisions made by county assessors.

If you have questions regarding the assessment of newly constructed property, you may contact the County-Assessed Properties Division at 1-916-274-3350.

Sincerely,

Dean R. Kinnee, Chief
County-Assessed Properties Division
Property and Special Taxes Department

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