



STATE BOARD OF EQUALIZATION
PROPERTY TAX DEPARTMENT
450 N STREET, SACRAMENTO, CALIFORNIA
PO BOX 942879, SACRAMENTO, CALIFORNIA 94279-0064
916 274-3350 • FAX 916 285-0134
www.boe.ca.gov

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December 31, 2018

BRENDA FLEMING
Interim Executive Director
No. 2018/067

TO COUNTY ASSESSORS:

BUSINESS PROPERTY AUDITS

Revenue and Taxation Code¹ section 469 requires a county assessor to annually conduct a significant number of audits of the books and records of taxpayers engaged in a profession, trade, or business who own, claim, possess, or control locally assessable trade fixtures and business tangible personal property.

Effective January 1, 2019, Senate Bill 1498 (Stats. 2018, Ch. 467) amends section 469 to provide county assessors flexibility in meeting this annual audit requirement. Currently, an assessor must conduct the required number of significant audits on an annual basis. However, beginning with the 2019-20 fiscal year, assessors may also meet the requirements of section 469 by completing the four-year total of required annual audits within that four-year period.

For example, if an assessor is required by section 469(a)(1) to conduct 150 audits annually for the four fiscal years beginning with 2019-20 through 2022-23, the assessor may meet this requirement either by conducting the required 150 audits for each fiscal year on an annual basis or by completing the 600 (4 x 150) total audits required for those four fiscal years at any time within the four-year period.

Attached is a copy of amended section 469, with changes indicated in ~~strikeout~~/*italicized* format. If you have any questions regarding these changes, please contact the County-Assessed Properties Division at 1-916-274-3350.

Sincerely,

/s/ David Yeung

David Yeung, Chief
County-Assessed Properties Division
Property Tax Department

DY:nks
Attachment

¹ All statutory references are to the Revenue and Taxation Code, unless otherwise specified.

Section 469 of the Revenue and Taxation Code is amended to read:

469. (a) The assessor shall annually conduct a significant number of audits of the books and records of taxpayers engaged in a profession, trade, or business who own, claim, possess, or control locally assessable trade fixtures and business tangible personal property in the county to encourage the accurate and proper reporting of property as required by this article. The assessor shall conduct an audit of those taxpayers as provided by subdivision (b).

(1) For purposes of this section, “significant number of audits” means at least 75 percent of the fiscal year average of the total number of audits the assessor was required to have conducted during the 2002–03 fiscal year to the 2005–06 fiscal year, inclusive, on those taxpayers in the county that had a full value of four hundred thousand dollars (\$400,000) or more of locally assessable trade fixtures and business tangible personal property.

(2) The assessor is not required to audit a taxpayer that is fully exempt from property taxation under other provisions of law for purposes of the requirements of this section.

(3) If the board audits a taxpayer because the taxpayer’s assessment was selected in a sampling of assessments from the local assessment rolls pursuant to Section 15640 of the Government Code, that audit may be deemed an audit by the assessor for purposes of the requirements of this section.

(b) ~~Each~~ Except as provided in subdivision (c), each year the audits required by subdivision (a) shall be conducted in the following manner:

(1) Fifty percent of the audits required by subdivision (a) shall be performed on taxpayers selected from a pool of those taxpayers that have the largest assessments of locally assessable trade fixtures and business tangible personal property in the county.

(A) This pool of taxpayers shall be determined as follows:

(i) The assessor shall rank all of the taxpayers in the county in descending order by the total locally assessed value of both trade fixtures and business tangible personal property.

(ii) The assessor shall select a qualified number of those taxpayers with the largest assessments for inclusion in the pool. The qualified number shall be that number equal to 50 percent of the audits required by subdivision (a) multiplied by four.

(B) Taxpayers in the pool shall be audited at least once within each four-year period following the latest fiscal year covered by a preceding audit and the audit may combine multiple fiscal years. The assessor is relieved of the requirement to audit the taxpayer at least once every four years if the assessor determines that the taxpayer’s assessments are no longer large enough for inclusion in the pool.

(2) The remaining 50 percent of the required audits, as determined by paragraph (1) of subdivision (a), shall be selected in a manner that is fair and equitable to all taxpayers and may be based on evidence of underreporting as determined by the assessor.

(3) Nothing in this subdivision is intended to prohibit the audit of any taxpayer more frequently than once every four years.

(c) In order to allow the assessor some discretion in the number of audits completed each fiscal year as long as the four-year total number of audits in each category are complete within a four-year period, as an alternative to the requirement in subdivision (b) the assessor may satisfy these requirements by auditing the four-year total of the significant number of audits at any time

within that four-year period. For purposes of this subdivision, the first four-year period shall begin with the 2019–20 fiscal year.

(d) With respect to any audit of the books of a profession, trade, or business, regardless of the full value of the trade fixtures and business tangible personal property owned, claimed, possessed, or controlled by the taxpayer, the following shall apply:

(1) Upon completion of an audit of the taxpayer's books and records, the taxpayer shall be given the assessor's findings in writing with respect to data that would alter any previously enrolled assessment.

(2) Equalization of the property by a county board of equalization or assessment appeals board pursuant to Chapter 1 (commencing with Section 1601) of Part 3 of this division shall not preclude a subsequent audit and shall not preclude the assessor from levying an escape assessment in appropriate instances, but shall preclude an escape assessment being levied on that portion of the assessment that was the subject of the equalization hearing.

(3) If the result of an audit for any year discloses property subject to an escape assessment, then the original assessment of all property of the assessee at the location of the profession, trade, or business for that year shall be subject to review, equalization and adjustment by the county board of equalization or assessment appeals board pursuant to Chapter 1 (commencing with Section 1601) of Part 3 of this division, except in those instances when the property had previously been equalized for the year in question.

(4) If the audit for any particular tax year discloses that the property of the taxpayer was incorrectly valued or misclassified for any cause, to the extent that this error caused the property to be assessed at a higher value than the assessor would have entered on the roll had the incorrect valuation or misclassification not occurred, then the assessor shall notify the taxpayer of the amount of the excess valuation or misclassification, and the fact that a claim for cancellation or refund may be filed with the county as provided by Sections 4986 and 5096.