



STATE BOARD OF EQUALIZATION
PROPERTY TAX DEPARTMENT
PO BOX 942879, SACRAMENTO, CALIFORNIA 94279-0064
1-916-274-3350 • FAX 1-916-285-0134
www.boe.ca.gov

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No. 2024/038

October 9, 2024

TO COUNTY ASSESSORS:

**PROPORTIONAL OWNERSHIP TRANSFER EXCLUSION:
TRANSFERS TO/FROM LEGAL ENTITIES**

On May 30, 2024, the California Supreme Court, in *Prang v. Los Angeles County Assessment Appeals Board* (2024) 15 Cal.5th 1152, held that the term "stock" as used in Revenue and Taxation Code¹ section 62(a)(2) applies to all classes of stock, including both voting and non-voting stock.

The issue before the Court was applicability of the exclusion under section 62(a)(2) to a transfer of real property involving a legal entity. A family corporation transferred ownership of a pair of supermarkets to one of its shareholders, a revocable trust. The trust held all the corporation's voting stock. The corporation also had a small number of individual shareholders who held nonvoting stock; those shareholders had no interest in the trust. The transfer of the properties to the trust thus eliminated whatever interests the individual shareholders held in the corporation's real property. The Assessor determined that the transfer did not qualify for the proportional ownership transfer exclusion under section 62(a)(2) and thus resulted in a change in ownership and reassessment of the real property.

In looking at the corporation's voting stock only, the Appeals Board determined that the proportional ownership interests in the properties were the same before and after the transfer because they remained with the trust. The Superior Court issued an order directing the Appeals Board to vacate its decision. The trustees appealed. In a published opinion², the Court of Appeal affirmed, rejecting the Appeals Board's interpretation of section 62 and agreeing with the Assessor. The Supreme Court affirmed the Appellate Court's holding that the Assessor appropriately reassessed the property after the transfer because the proportional ownership interests, as measured by all the stock of the transferor corporation, had changed.

The question presented was whether this transfer of properties was excluded from change in ownership under section 62(a)(2); that is, whether the proportional ownership interests in the real property transferred, as "represented by stock, partnership interest, or otherwise," remained the same before and after the transfer.

In analyzing the situation, the Court made a distinction between a transfer of real property involving a legal entity and a transfer of an ownership interest in a legal entity. The Court rejected the argument

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

² *Prang v. Amen* (2020) 58 Cal.App.5th 246, 261.

that ownership interests in a corporation should be measured by voting stock only, rather than all stock, as this argument is inconsistent with the plain language of section 62(a)(2). Section 62(a)(2) refers to "ownership interests . . . represented by *stock*, partnership interest, or otherwise." (Italics added.) Unlike section 64(c)(1), which specifies "voting stock" for purposes of determining whether a transfer of interest in a legal entity results in a change in control, section 62(a)(2) uses the general term "stock."

Thus, the Court concluded that section 62(a)(2) measures proportional beneficial ownership interests in corporate real property by corporate stock generally. Further, because sections 62 and 64 concern different ownership interests — ownership interests *in real property* and ownership interests *in legal entities*, respectively — section 64 does not compel a contrary reading of section 62. Likewise, section 64 is not affected by this Court decision.

In conclusion, "ownership interests" of a corporation is treated differently depending on whether the event is a transfer of real property or a transfer of an interest in the corporation, as follows:

- In determining whether a *transfer of real property* to or from a corporation is eligible for the section 62(a)(2) exclusion, an Assessor must consider ownership interests of the corporation to include all stock.
- In determining whether a *transfer of an ownership interest in a corporation* results in a change in control under section 64(c)(1), an Assessor only considers the corporation's voting stock.

For your reference, a copy of the decision is enclosed. If you have any questions, please contact the County-Assessed Properties Division at 1-916-274-3350.

Sincerely,

/s/ David Yeung

David Yeung
Deputy Director
Property Tax Department

DY:gs
Enclosure