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# Reassessment of Property Owned by Legal Entities

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March 12, 2012

Assembly Rev. & Tax. Oversight Hearing

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Board of Equalization, Legal Department

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# Background

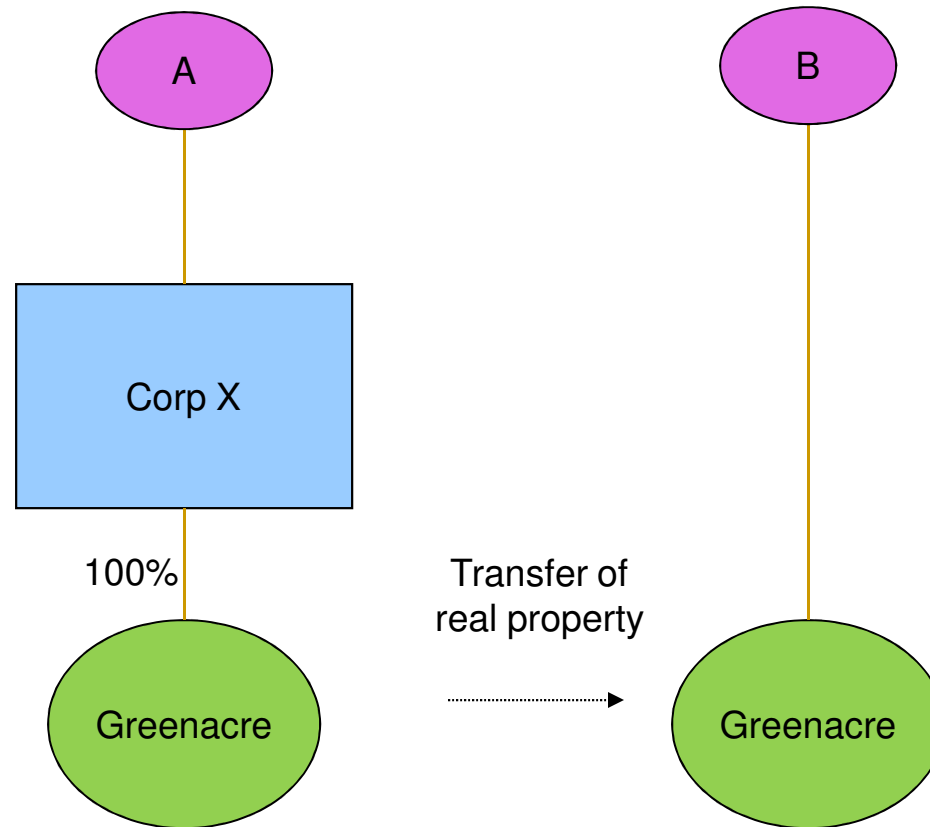
1. Proposition 13 - Prohibited reassessment of real property except upon: (a) Change in Ownership or (b) Completion of New Construction

2. CIO of Legal Entity Interests – Governed by:

RTC 64(a) – transfer of legal entity interest does not cause a reassessment of property owned by the legal entity, unless:

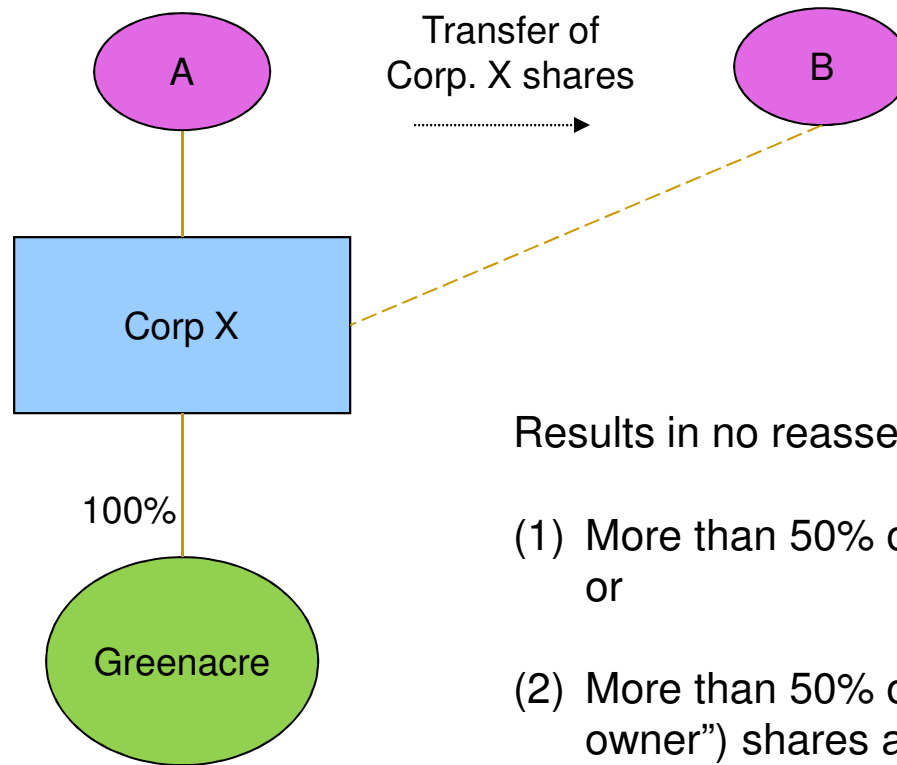
- i. RTC 64(c)(1) – change in control (>50% owned by one person or entity)
- ii. RTC 64(d); 62(a)(2) – change in ownership (>50% transfer of “tainted” shares; shares “tainted” if 62(a)(2) exclusion previously used); “tainted” shares = “original co-owner” shares

# Transfer of Real Property Interests



Results in change in ownership of percentage transferred. (RTC 61(j))

# Transfer of Legal Entity Interests

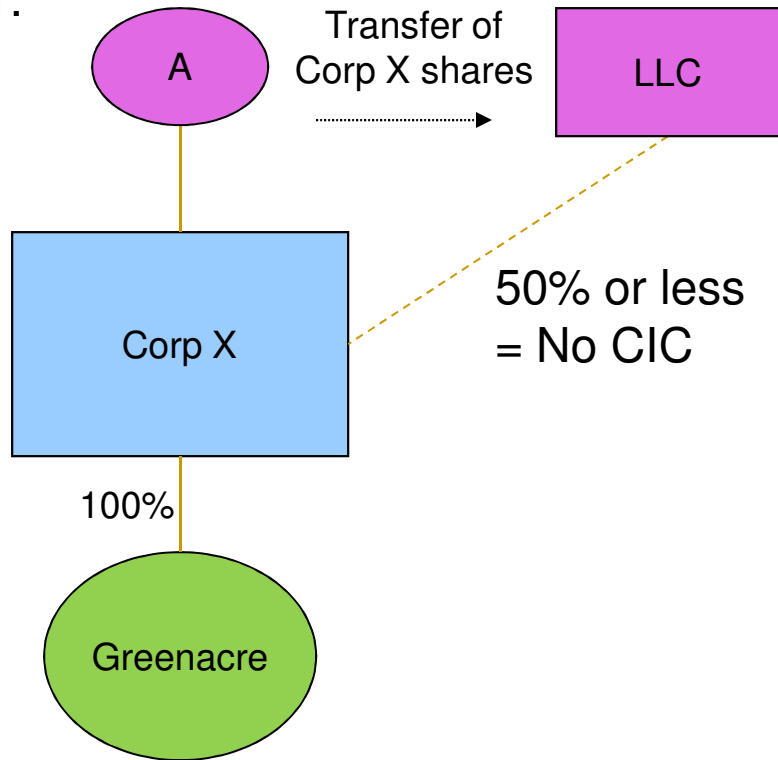


Results in no reassessment of Greenacre unless:

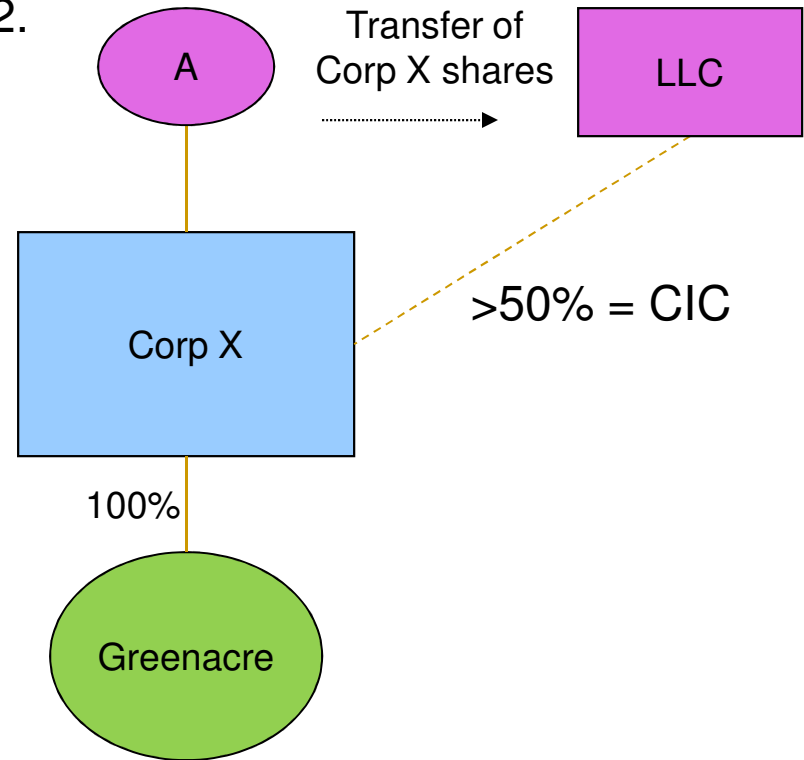
- (1) More than 50% of Corp X is transferred to B;  
or
- (2) More than 50% of “tainted” (“original co-owner”) shares are transferred by A.

# Change in Control

1.

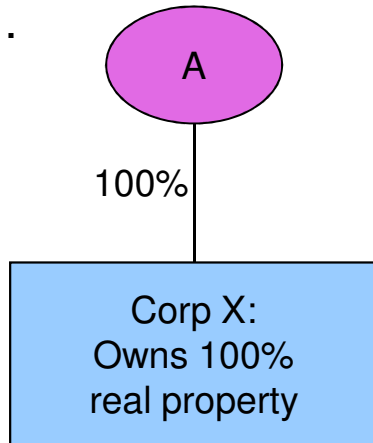


2.

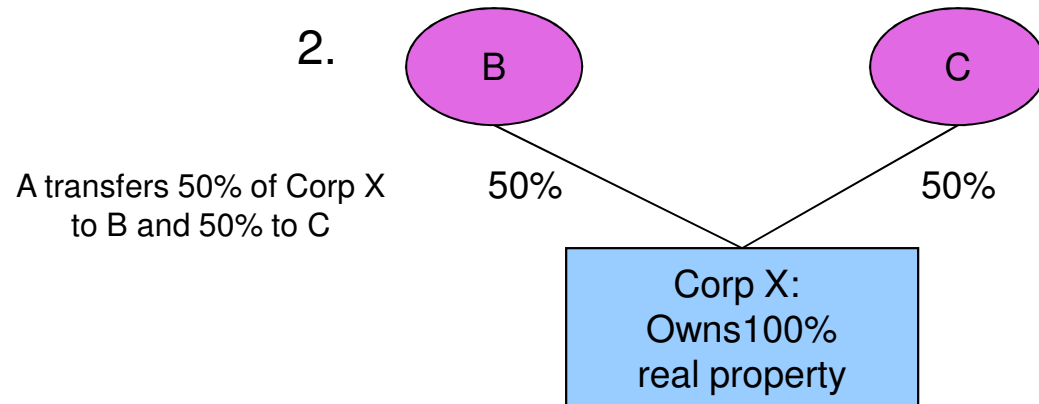


# No Change in Control - Examples

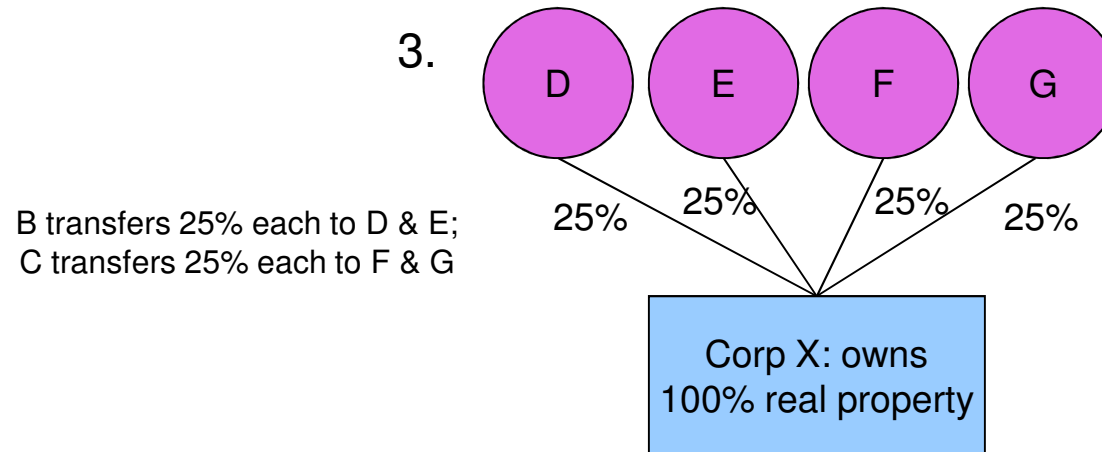
1.



2.

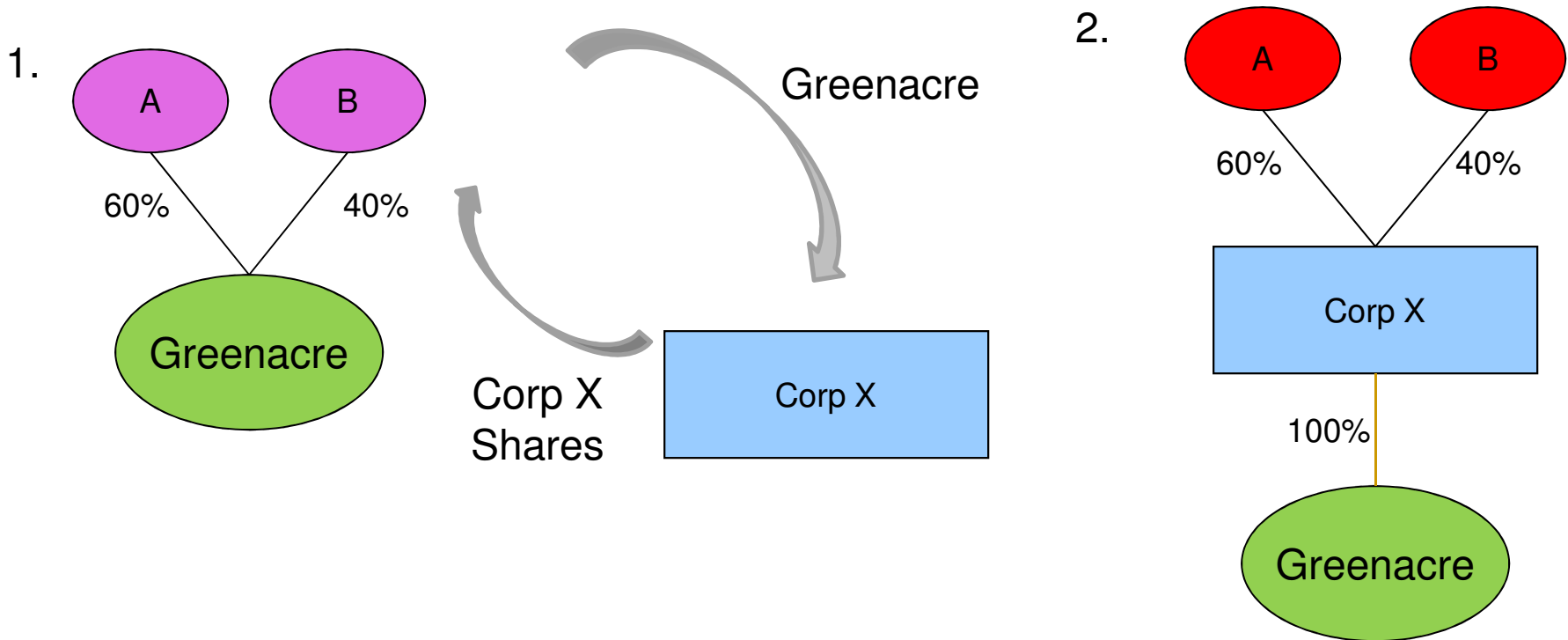


3.



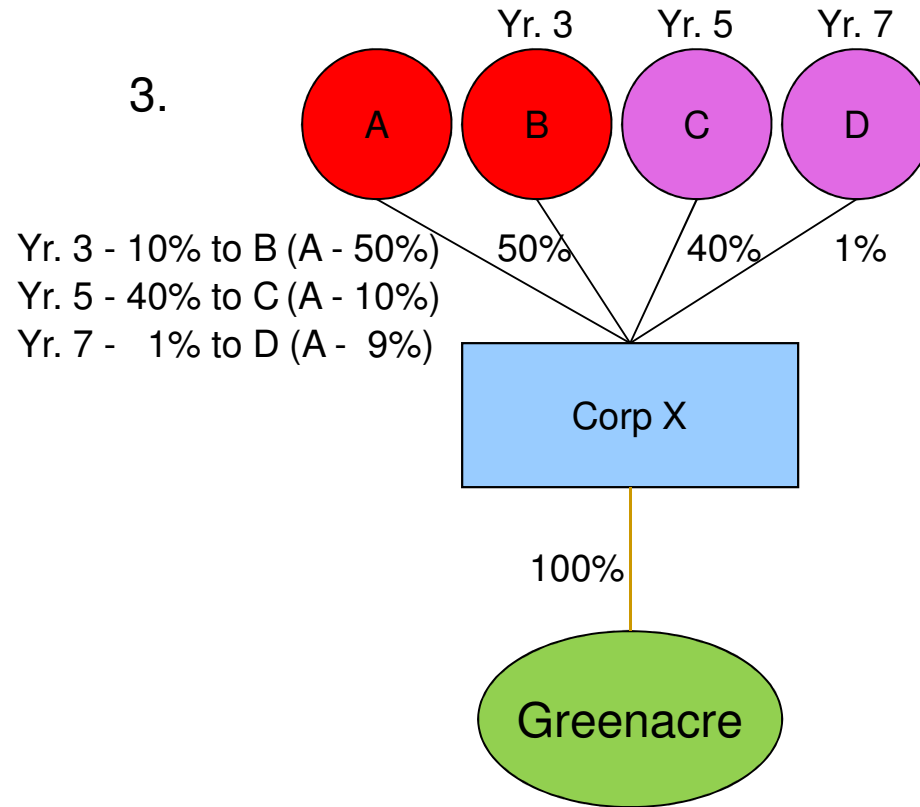
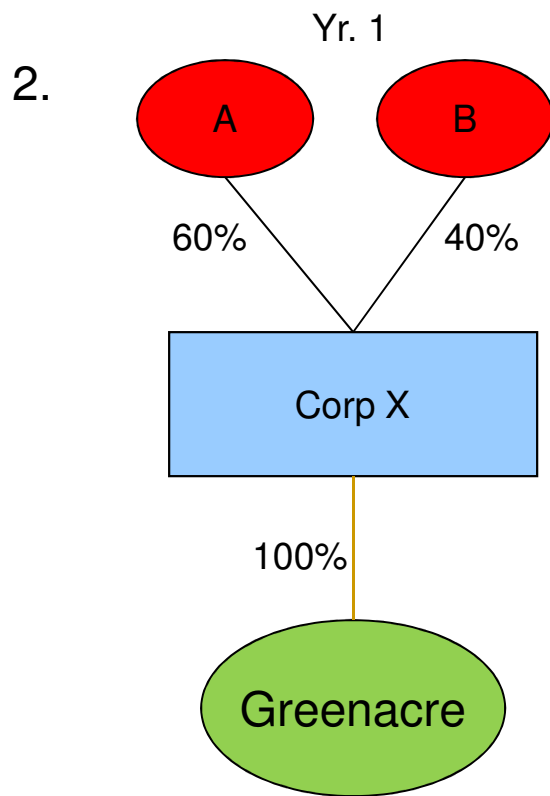
Results in no property reassessment; can be done repeatedly

# Change in Ownership – Original Co-owners



No change in ownership;  
A & B are “tainted” (i.e., become “original co-owners”)

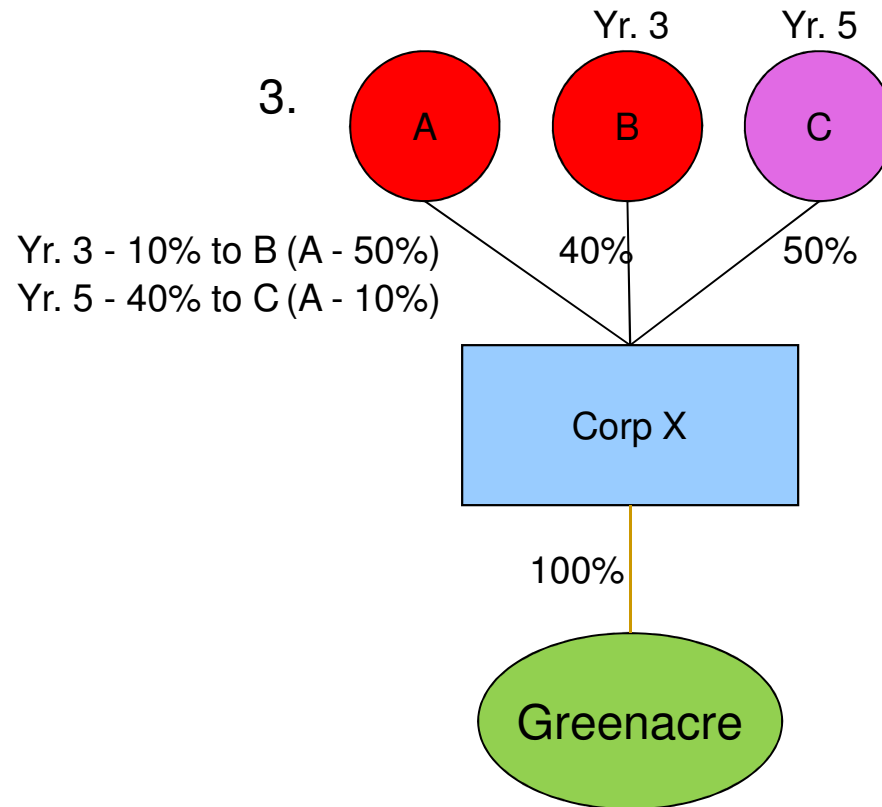
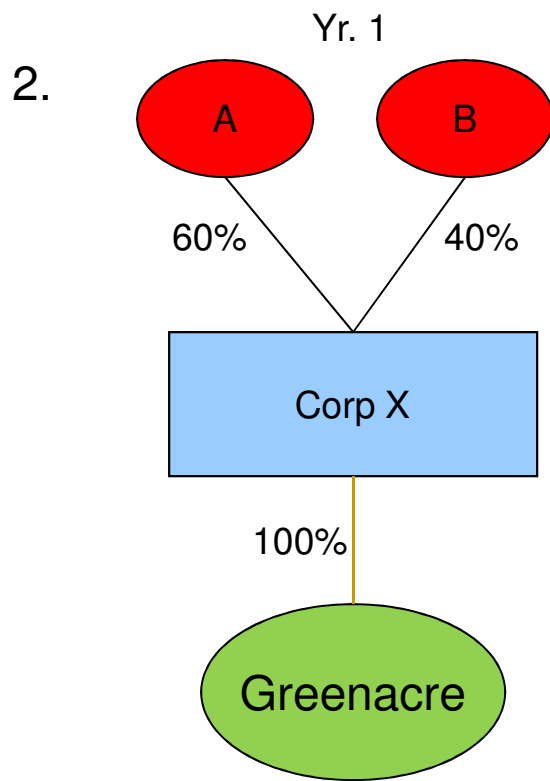
# Change in Ownership – Original Co-owners



Results in 100% reassessment of Greenacre in Yr. 7

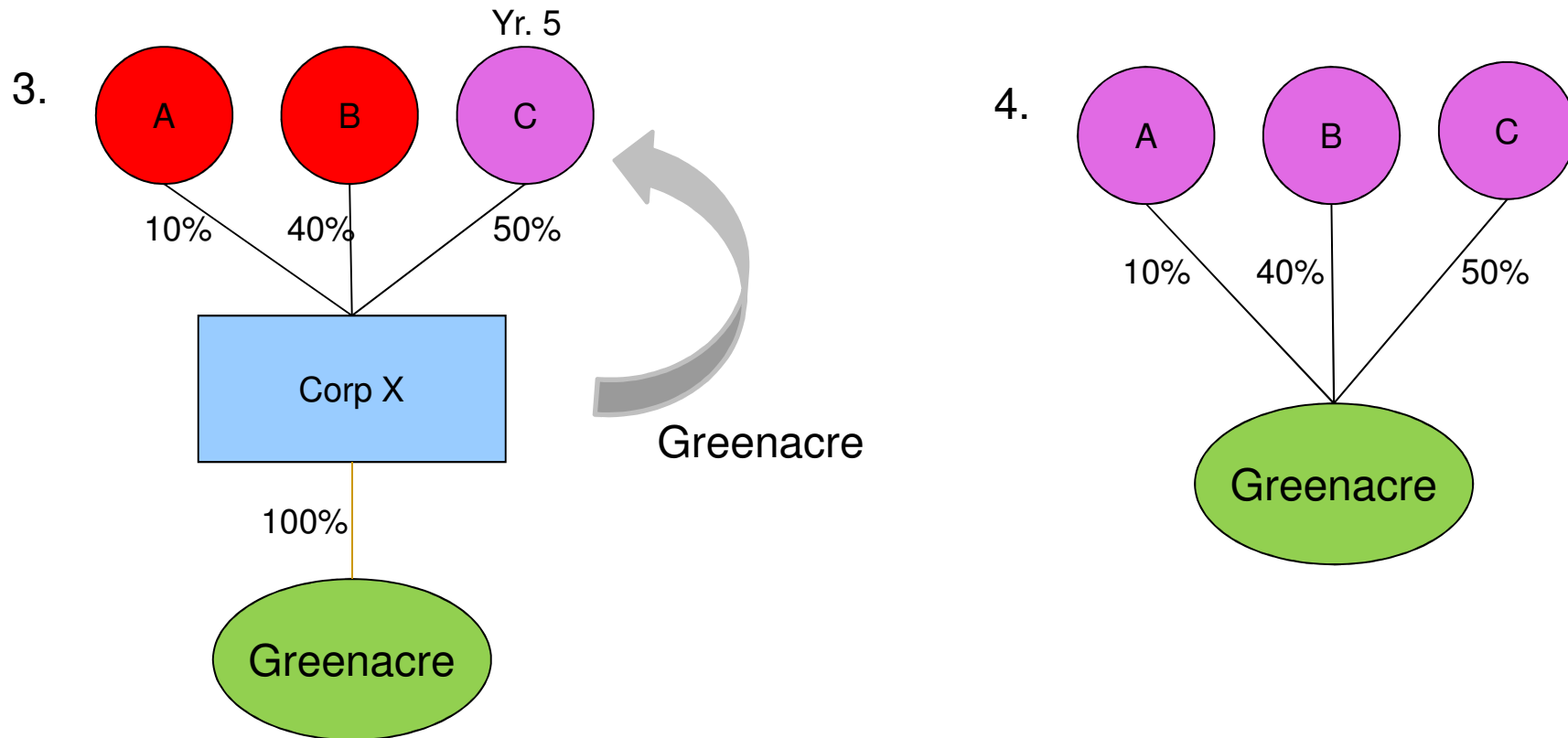


# Change in Ownership – Original Co-owners



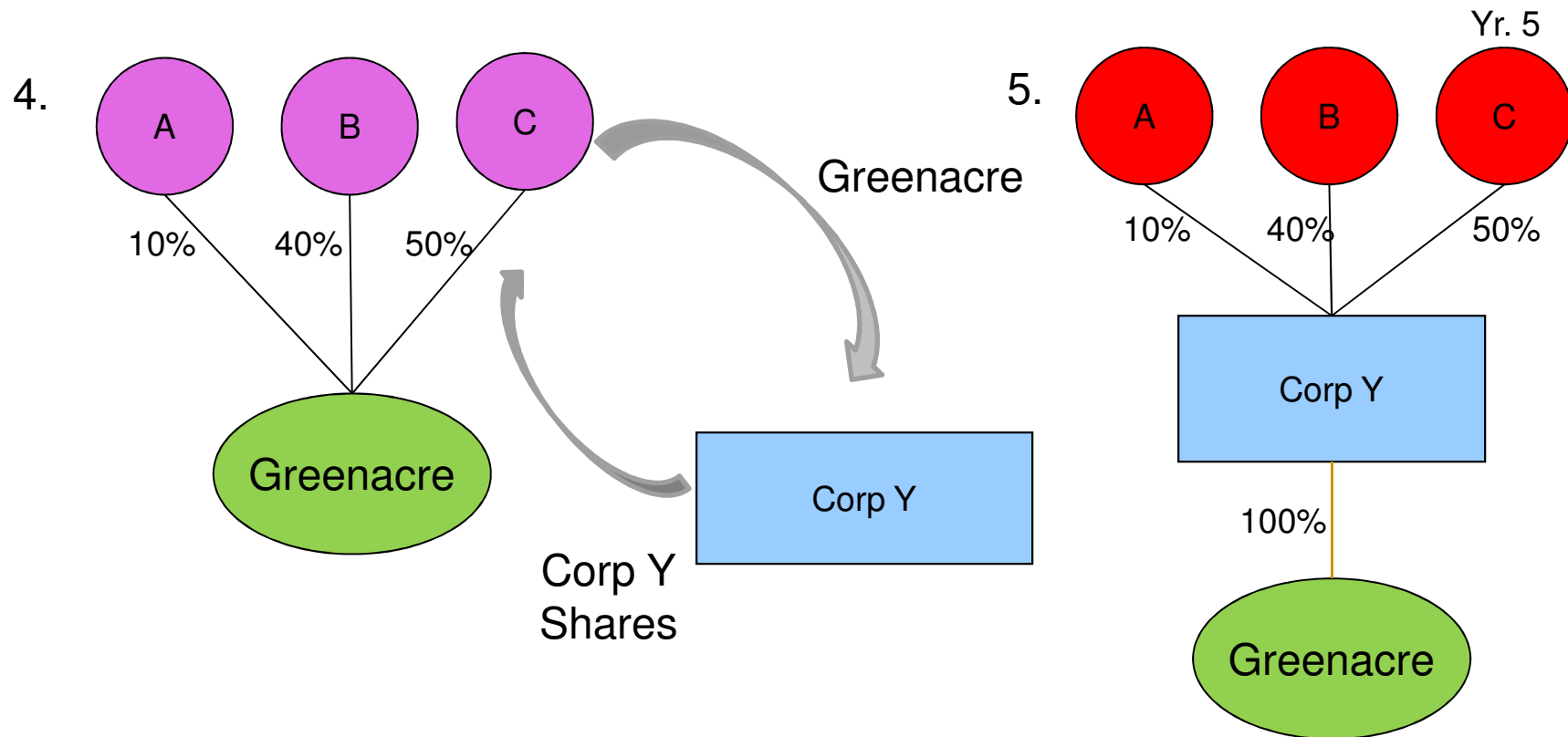
50% original co-owner shares transferred by Yr. 5;  
Any more original co-owner shares transferred will result  
in 100% reassessment of Greenacre

# Change in Ownership – Original Co-owners



No reassessment; Taint disappears  
A&B are no longer original co-owners

# Change in Ownership – Original Co-owners



No CIO of Greenacre; A, B, & C become original co-owners  
Subject to “step transaction” doctrine

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# Issues to Consider

1. Administration
2. Traps for the unwary
3. Reporting
4. Discovery