CHAPTER 3A

ALCOHOLIC BEVERAGE TAX AND LIQUOR LICENSE FEES

HIGHLIGHTS

- Tax Base: Taxes and surtaxes are imposed on alcoholic beverages on a per gallon basis; license fees are levied on holders of alcoholic beverage licenses.

- Tax Rates

	Tax Per Gallon	Surtax Per Gallon	Total Taxes Per Gallon
Beer	$0.04	$0.16	$0.20
Wine (14%* or less)	$0.01	$0.19	$0.20
Wine (over 14%*)	$0.02	$0.18	$0.20
Champagne and Sparkling Wine	$0.30	none	$0.30
Distilled Spirits (100 proof or less)	$2.00	$1.30	$3.30
Distilled Spirits (over 100 proof)	$4.00	$2.60	$6.60
Sparkling hard cider	$0.02	$0.18	$0.20

- License Fees: $69 - $1,379 per year

- Tax Revenue*

2014-15	$353 million
2015-16	$366 million
2016-17(Estimate)	$373 million

- Administration: Department of Alcoholic Beverage Control (ABC) issues licenses and collects the license fees. Board of Equalization (BOE) collects the taxes.

*Alcohol content
Source: BOE/ABC

1. TAX OVERVIEW

Alcoholic beverage taxes and surtaxes are imposed on all beer and wine or distilled spirits sold within this state. The taxes and surtaxes are levied on a per gallon basis and are imposed at the highest level in the distribution chain (i.e., on manufacturers, manufacturer's agents, distillers, winegrowers, wholesalers, or rectifiers). Taxes and surtaxes on alcoholic beverages that are imported (transported) into California from out-of-state are imposed on importers.

Taxes and surtaxes are generally passed on to consumers. Although imposed in lieu of all county, municipal, or district taxes, the alcoholic beverage taxes and surtaxes are incorporated into the retail price of a product and become part of the sales tax base for that product.

Alcoholic beverage license fees are levied when licenses for the sale of alcoholic beverages are granted or renewed on a yearly basis.

In most instances, different licenses are required for manufacture, wholesale distribution, and retail sales. On-sale and off-sale retail licenses distinguish between beverages sold for on-premises consumption and those sold for consumption off the premises. Trains, boats and aircraft also require special alcoholic beverage licenses.

2. TAX RATE

There is no single tax or surtax rate on alcoholic beverages. The rate varies considerably, depending on the type of alcohol being taxed. The rates are described in the "Highlights" box at the beginning of this chapter.

3. EXEMPTIONS/CREDITS

Exemptions from the alcoholic beverage tax are provided under the following circumstances:

- Certain sales of alcohol used in trades, professions or industries other than for beverage purposes when sold by specified licensees (e.g., alcohol purchased by private businesses for business-related testing purposes) [Revenue and Taxation Code (R&TC) Section 32052];

- Ethyl alcohol used by governmental agencies or scientific universities, or alcohol or industrial alcohol in certain products when sold in containers larger than one gallon (R&TC Section 32053);

- Sales to common carriers for use on boats, trains, or airplanes when the alcoholic beverages are to be used outside the state (R&TC Section 32054);

- Continuous transportation of alcoholic beverages through the state by common carriers (R&TC Section 32051);

- Beer or wine subsequently exported outside California or destroyed (R&TC Section 32176);

- Alcoholic beverages destroyed or damaged so that they could not be sold and that the licensee has not otherwise been compensated for the loss in the amount of the tax included in the purchase price paid for the alcoholic beverages (Refund) (R&TC Section 32407);

- Distilled spirits, wine and beer sold for export and actually exported (R&TC Sections 32211, 32171, and 32173);

- Distilled spirits sold or delivered to another licensed distilled spirits manufacturer, rectifier or wholesaler (R&TC Section 32211);

- Distilled spirits sold to instrumentalities of the United States armed forces that are located on territory within the state (R&TC Section 32177.5); and,

- Wine sold or delivered in internal revenue bond to another wine grower, and beer sold or delivered in internal revenue bond to another beer manufacturer in this state (R&TC Sections 32171 and 32174).

4. FEDERAL TAXATION

The federal government also imposes excise taxes on alcoholic beverages, as follows:

Beer	\$ 0.58 per gallon
Wine (14%* or less)	\$ 1.07 per gallon
Wine (14% to 21%*)	\$ 1.57 per gallon
Wine (21% to 24%*)	\$ 3.15 per gallon
Champagne and Sparkling Wine	\$ 3.40 per gallon
Distilled Spirits	\$13.50 per gallon
Artificially Carbonated Wine	\$ 3.30 per gallon

*Alcohol content

The federal taxes, which are considerably higher than state taxes, are imposed in addition to state taxes. Both taxes are included in the state sales tax base.

5. REVENUE

Alcoholic beverage taxes raised $353 million in 2014-15. It is estimated that they will raise $366 million in 2015-16, and $373 million in 2016-17. All alcoholic beverage tax revenues accrue to California's General Fund.

License fee revenues (currently on the order of $57,816,987 million annually) are directed to special funds. Most license fee revenue is deposited into the ABC Fund ($56.1 million) for use by the Department of ABC in administering the ABC Act. Much smaller amounts (approximately $1.7 million annually) are directed to the ABC Appeals Fund ($1,300,540) to support the Appeals Board and to the Motor Vehicle Account ($430,695) to help the California Highway Patrol Designated Driver Program.

6. ADMINISTRATION

The Department of ABC issues licenses and collects license fees. California's BOE administers and collects the state excise taxes. The tax is a direct obligation of the taxpayer and the BOE administers the taxes in a manner consistent with other taxes, with specified provisions for determinations of tax due, collection actions, and refund provisions. The California Taxpayer's Bill of Rights creates specific remedies and programs related to Alcoholic Beverage Taxes.

7. CODE

California Constitution, Article XX, Section 22

Revenue and Taxation Code Sections 32001-32557

Business and Professions Code Sections 23300-25762.

CHAPTER 3B

CIGARETTE AND TOBACCO PRODUCTS TAX

HIGHLIGHTS

• Tax Base	Cigarettes and other tobacco products.
• Rate	Cigarettes: $0.87 per pack. Other tobacco products: 28.13% of the wholesale cost of tobacco, effective July 1, 2015 through June 30, 2016. The other tobacco products tax rate is updated annually each July 1.
• Revenue	2014-15 (Actual) $832 million 2015-16 (Estimate) $813 million* 2016-17 (Estimate) $791 million* 0.5% of all state revenues
• Administration	Board of Equalization (BOE)

*General Fund revenue is estimated to be $84 million in 2015-16 and $82 million in 2016-17.

---

1. TAX OVERVIEW

California levies two distinct excise taxes on tobacco products: the cigarette tax and the tobacco products tax that is imposed on items such as cigars, pipe tobacco, and chewing tobacco. Both excise taxes are imposed on distributors but ultimately passed on to consumers.

Tobacco taxes incorporated into the retail price of tobacco products become part of the sales tax base for those products.

2. TAX RATE

Prior to 1989, California levied an excise tax of five mills ($0.005) on each cigarette, or $0.10 on each pack of 20 cigarettes.

Passage of Proposition 99 in November 1988 increased the excise tax on cigarettes by $0.25 per pack (to $0.35 per pack) effective January 1, 1989 and imposed a "tobacco products tax" on cigars, chewing tobacco, pipe tobacco, and snuff. The tobacco products tax, which is stated as a percentage of the wholesale cost of tobacco, was set at a rate equivalent to the excise tax on cigarettes. Proposition 99 revenues are deposited into the Cigarette and Tobacco Products Surtax Fund to support anti-smoking education programs, tobacco-related diseases research, indigent health care and public resources.

An additional $0.02 per pack cigarette increase was added in 1994 to fund Breast Cancer Research. The proceeds from the tax are deposited in the Breast Cancer Fund, with allocations to the Breast Cancer Research Program and the Breast Cancer Control Program.

Passage of Proposition 10 in November 1998 further increased both the cigarette and tobacco products tax rates. Pursuant to Proposition 10, the cigarette tax rate increased by $0.50 per pack and the other tobacco products tax rate increased by an equivalent amount, effective January 1, 1999. Proposition 10 requires that revenues from the Proposition 10 tax increase be deposited in the California Children and Families First Trust Fund for the purpose of promoting, supporting, and improving the development of children from the prenatal stage to five years of age.

Proposition 10 also indirectly generated a second increase in the other tobacco products tax rate, beginning July 1, 1999. This additional increase resulted because Proposition 99 requires the other tobacco products tax rate to be recalculated on July 1 of each year based on the wholesale price of cigarettes in March of that year. Thus, when Proposition 10 increased the tax on a pack of cigarettes by $0.50 on January 1, it indirectly triggered an *additional* increase in the other tobacco products tax on July 1, 1999. Revenues from this additional increase were deposited in the Cigarette and Tobacco Products Surtax Fund to fund Proposition 99 programs.

3. EXEMPTIONS

Sales of cigarettes or other tobacco products to Armed Forces exchanges, commissaries, Naval or Coast Guard ships and stores, and to the Veterans Administration are exempt from the tax, as are up to 400 cigarettes transported or brought into California by any individual for his or her personal consumption. The U.S. Constitution also exempts sales by Indian smoke shops to Indians.

4. FEDERAL TAXATION (NOTE: The Children's Health Insurance Program Reauthorization Act increased the federal excise tax on tobacco products.)

The federal government imposes excise taxes on cigarettes and tobacco products at the following rates:

Small cigars (weighing 3 lbs. or less*)	$ 50.33 per thousand
Large cigars (weighing more than 3 lbs.*)	52.75% of wholesale price, not to exceed $402.60 per thousand
Small cigarettes (weighing 3 lbs. or less*)	$ 50.33 per thousand
Large cigarettes (more than 3 lbs.*)	$105.69 per thousand
Snuff	$ 1.51 per pound
Chewing Tobacco	$ 0.5033 per pound
Pipe Tobacco	$ 2.8311 per pound

*Per thousand

These federal excise taxes are imposed in addition to state excise taxes and are included in the state sales tax base.

5. REVENUE

Total actual tobacco tax revenues for the 2013-14 and 2014-15 fiscal year, and estimated tax revenues for 2015-16 and 2016-17 fiscal years are shown below:

	2013-14 ($ Millions) Actual	2014-15 ($ Millions) Actual	2015-16 ($ Millions) Estimate	2016-17 ($ Millions) Estimate
General Fund	$ 86.4	$ 86.3	$ 83.8	$ 81.5
Cigarette and Tobacco Products Surtax Fund (Proposition 99)	268.8	267.9	262.3	255.0
Breast Cancer Fund	17.3	17.2	15.9	15.5
California Children and Families First Fund (Proposition 10)	460.6	461.0	451.1	438.5

Use of Special Funds. Cigarette and Tobacco Products Surtax (Proposition 99) Fund: Money in the Cigarette and Tobacco Products Surtax Fund is allocated in the following ways:

- Health Education Account — 20% for education on the prevention and reduction of tobacco use
- Hospital Services Account — 35% to pay hospitals for the treatment of indigent, uninsured patients

° Physicians Services Account	10% to pay physicians who render medical services to indigent patients
° Research Account	5% to fund research on tobacco-related diseases
° Public Resources Account	5% to be equally divided between wildlife preservation programs and improvement of state and local park and recreation facilities
° General Purposes (Unallocated Account)	25% to be used for any of the specific purposes described above

Barring any revenue offsets, Proposition 10 would be expected to result in a decrease in revenues to the Cigarette and Tobacco Products Surtax Fund. This decrease would result from an overall reduction in sales of cigarettes and other tobacco products. However, Proposition 10 requires BOE to determine the fiscal effect of the decrease in consumption on any Proposition 99 state health-related education or research programs and Breast Cancer Fund programs. To the extent these programs lose money as a result of Proposition 10, Proposition 10 requires that funds be transferred from the Children and Families First Fund to the Proposition 99 and Breast Cancer Funds to backfill the losses.

This backfill provision does not extend to Proposition 99 health care or public resources programs.

Breast Cancer Fund: As noted earlier, revenue in the Breast Cancer Fund is directed toward research into the cause, cure, treatment, early detection, and prevention of breast cancer. The money in the Breast Cancer Fund is divided equally between two accounts: the Breast Cancer Research Account and the Breast Cancer Control Account.

The Breast Cancer Research Account shall allocate 10% of its moneys for the collection of breast cancer-related data and 90% of its moneys to the Breast Cancer Research Program created at the University of California to award grants and contracts for research related to the cause, cure, treatment, prevention, and earlier detection of breast cancer. The Breast Cancer Control Account shall allocate its moneys to provide early breast cancer detection services for uninsured and underinsured women.

California Children and Families First (Proposition 10) Fund: Proposition 10 creates one state commission and authorizes the creation of 58 local commissions (one in each county) to carry out the purpose of the proposition. After the Proposition 99 and Breast Cancer Funds are backfilled to alleviate certain losses they experience as a result of Proposition 10, 20% of the remaining funds are allocated to the state commission and 80% to the local commissions. The 20% allocated to the State commission must be spent for the following purposes:

° Mass Medical Communications	6%/20% to a Mass Media Communications Account for television, radio, newspaper, and other mass media communications that relate to and further the goals of the act related to early childhood development.
° Education	5%/20% to an Education Account for development of educational materials, professional and parental education and training, and technical support for county commissions.
° Child Care	3%/20% to a Child Care Account for programs related to the education and training of child care providers and the development of educational materials and guidelines for child care workers.
° Research and Development	3%/20% to a Research and Development Account to fund early childhood development research and evaluation of early childhood development programs and services that are established pursuant to the proposition.
° Administration	1%/20% for administrative expenses of the state commission.
° General Purposes	2%/20% to be used by the state commission for any of the purposes of the proposition.

Each local commission is required to develop a strategic plan for supporting and improving early childhood development in its county and to spend its Proposition 10 funds in a manner consistent with its strategic plan. The formula for allocating revenues to the county commissions is based on the annual number of births in each participating county.

6. ADMINISTRATION

The BOE is the state agency responsible for collecting the cigarette and tobacco products tax. The cigarette tax is collected from distributors, who purchase stamps to affix to each pack of cigarettes.

Licensed distributors are allowed a discount of 0.85% of the value of the stamps at the time of purchase. This discount is designed to help offset the costs of affixing the stamps to each pack of cigarettes.

Criminal penalties apply to forging tax stamps or for possessing, keeping, storing or retaining for the purpose of sale or for selling or possessing for sale counterfeit cigarettes or tobacco products.

Cigars, pipe tobacco, snuff, and chewing tobacco are not stamped. The tobacco products tax is paid through the use of a return on which the distributor reports the wholesale cost of the tobacco products distributed and calculates the tax due, which is based on the wholesale cost of the tobacco products.

7. CODE

Revenue and Taxation Code Sections 30001-30481

Revenue and Taxation Code Sections 30473.5, 30474, 30474.1

CHAPTER 3C

INSURANCE GROSS PREMIUMS TAX

HIGHLIGHTS

• Purpose	To impose taxes on insurance companies that transact business activities in California.
• Tax Base	Tax is assessed on the basis of: (1) the State's prorated share of underwriting profit from ocean marine insurance written in the US; (2) for title insurance, all income upon business done except interest and dividends, rents from real property, profits from sale or disposition of investments, and income from investments; and, (3) annual gross premiums less return premiums for all other insurers and licensed brokers, including the State Compensation Insurance Fund (SCIF). Insurance companies may also be assessed with retaliatory taxes.
• Tax Rate	Title insurance and all others, including retaliatory tax, are levied at 2.35% of the annual gross premiums. For ocean marine, 5% percent of the average annual underwriting profit during the preceding three calendar years. Surplus line brokers are taxed at 3% rate.
• Revenue	2014-15 Actual — $2.0 Billion 2015-16 (Estimate) — $2.0 Billion 2016-17 (Estimate) — $2.0 Billion
• Administration	Board of Equalization (BOE) State Controller's Office Department of Insurance Franchise Tax Board (FTB) - For Non-Admitted Insurance Companies

---

1. TAX OVERVIEW

Insurance taxation is authorized by the State Constitution. Chapter 113, Statutes of 1941 consolidated and revised related laws and included insurance taxation as Sections 12001-13170, Part 7, Division 2 of the California Revenue & Taxation Code.

Insurance companies that are licensed to transact insurance business in California are called admitted insurers. Admitted insurers are strictly regulated by the State. Generally, all insurers are subject to annual tax on the **gross premiums** written in the preceding calendar year, less return premiums. Return premiums are premium paid in part or in full for canceled policy before the expiration date. However, insurers offering some types of insurance policies use different tax bases. Home protection basis include direct premiums written, additional contract fees and orphan premiums. Life insurance includes accident and health premiums, and annuity premiums.

Title insurance companies are taxed on all income from business done in California, except interest, dividends, rents from real property, profits from sale or disposition of investments and income from investments. **Ocean marine insurers** are taxed based on their three-year average underwriting profit written in the United States on hulls, freights, sea-going vessels, and goods and wares transported on the seas.

Each out-of-state insurance company doing business in California is required to pay a retaliatory tax if its California insurance tax liability is less than the tax liability that would be imposed on a California insurance company doing the same level of business in the home state of the out-of-state insurance company.

Surplus line brokers sell insurance policies from non-admitted insurance companies. Non-admitted insurers are not licensed nor regulated by the State. Surplus line brokers are also taxed on their gross premium, less any return premiums.

Insurers are required to make quarterly prepayments in each calendar year if their annual tax from the preceding year was $20,000 or more. Likewise, surplus line brokers are required to make monthly prepayments. Failure to make timely annual payments or prepayments would render an insurer or broker liable for penalty and interest computed as percentage of taxes owed.

Chapter 144, Statutes of 1966 amended the Code to create the insurance tax fund that serves as depository of all taxes, interest, and penalties collected under the provisions of the Code.

3. TAX RATE

Ocean marine insurers are taxed at 5% rate while surplus line brokers are taxed at 3%. Additionally, "non-admitted insurers" are subject to a 3% tax on gross premiums less returned premiums. Title insurers and all other insurers are taxed at a rate of 2.35%.

Proposition 103, approved by the voters in November 1988, required the BOE to adjust the rate of the insurance gross premiums tax for 1989 and 1990 to compensate for any decline in revenue resulting from the initiative's restrictions on premiums. In January 1991, BOE set the insurance gross premiums tax rate at 2.46% of premiums collected during the 1990 calendar year.

However, BOE's authority under Proposition 103 to administratively set the gross premiums tax rate expired at the end of 1991. Accordingly, the tax rate for premiums collected in subsequent years reverted to the constitutionally specified level of 2.35%.

4. DEDUCTIONS

As stated in California Constitution, Article XIII, Section 28, the insurance tax is in lieu of all other state and local taxes and license fees, <u>except</u> real property taxes, motor vehicle license and registration fees, and ocean marine insurance. Insurance companies, therefore, are not subject to the corporation tax, nor do they pay property tax on personal property. Currently, there are no deductions allowed against insurance gross premiums tax.

However, several tax credits are made available to the insurers. Insurers are also allowed to file an appeal for redetermination to correct or eliminate deficiency assessments. In some cases, insurance companies may ask for relief from penalty and interest assessments.

5. FEDERAL TAXATION

Taxation of insurance companies under the federal income tax is consistent with taxation of other companies. There is no federal insurance gross premium tax.

6. REVENUE

Revenue & Taxation Code Section 13151 created the insurance tax fund to serve as depository of all proceeds from insurance taxation. Section 13152 appropriates the money in the insurance tax fund upon order of the Controller for refunds or transfers to the General Fund.

Insurance tax revenues for Fiscal Year (FY) 2014-15 was $2 billion. It is estimated to equal $2 billion in FY 2015-16 and $2 billion in FY 2016-17.

7. ADMINISTRATION

Insurance taxation is jointly administered by three control state agencies.

Revenue & Taxation Code Section 13170 delegates the administration and enforcement of the Code to the BOE, the State Controller's Office (SCO) and the California Department of Insurance (CDI). Each agency may prescribe, adopt, and enforce rules and regulations for which the agency has constitutional or statutory responsibility.

The BOE determines tax rates, the CDI invokes the California Insurance Code to regulate insurance carriers and surplus line brokers, and the SCO superintends the accounting and collection of all moneys due to the State.

Under the current structure, the BOE is the assessing agency and responsible for hearing appeals and determination of annual tax refunds. The CDI ensures the correctness of tax returns, proposes deficiency assessments and receives prepayments. The CDI reports all prepayments to the SCO. The SCO collects penalties, interests, and taxes which were not paid with the original return. The SCO also releases tax refunds. The California Manual of State Funds states that the SCO maintains the general accounting records of the fund.

Chapter 1142, Statutes of 1993, added Sections 13201 to 13222 Part 7.5 delegating the FTB to administer and enforce the collection and refund of annual taxes for non-admitted insurers. All moneys collected from this part shall also be deposited in the insurance tax fund.

8. CODE

California Constitution, Article XIII, Section 28
Revenue and Taxation Code Division 2, Part 7, Sections 12202-13170; and Part 7.5, Sections 13201-13322
Government Code Section 12410-12439
Chapter 113, Statutes of 1941; Chapter 740, Statutes of 1961; Chapter 144, Statutes of 1966; Chapter 1142, Statutes of 1993

CHAPTER 3D

ESTATE TAX

HIGHLIGHTS

• Tax Base	The value of the adjusted taxable estate.	
• Tax Rate	Equal to the maximum allowable federal state death tax credit for which the taxpayer is eligible.	
• Revenue	2014-15 (Actual)	$2.64 million*
	2015-16 (Actual & Estimate)	$1.54 million*
	2016-17 (Estimate)	$0.98 million*
• Administration	State Controller's Office	

*Includes estimated effects of estate tax phase-out (see Sections 2 and 3 of this Chapter)

1. TAX OVERVIEW

In 1982, California voters approved an initiative to repeal the state Inheritance and Gift Tax law. The initiative, Proposition 6, provided for the imposition of the **Estate Tax**, and prohibited the imposition of inheritance taxes by the state or local governments.

Generally, estate tax is levied on the entire property holdings of an individual upon his or her death. The value of each estate is based upon the fair market value of the decedent's property and interests in property as of the decedent's date of death. The California estate tax is derivative of the federal estate tax. Under federal law, the estate tax is reduced by a credit for a portion of state inheritance or estate taxes paid, up to certain maximum levels. California's estate tax is equal to the taxpayer's maximum allowable federal state death tax credit. In effect, California "picks up" a share of the tax that would otherwise go to the federal government but does not increase the total tax liability of the estate.

2. FEDERAL REPEAL OF THE STATE PICKUP TAX CREDIT

The Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001 provided for elimination of the federal estate tax over a four-year period beginning in 2002. Under federal law, an effective exclusion of $1 million exists for deaths occurring in 2002 and 2003; the effective exclusion rises to $1.5 million in 2004 and 2005; to $2 million in 2006, 2007, and 2008; and to $3.5 million in 2009. The EGTRRA was scheduled to sunset after 2010, at which time the federal estate tax would have been reinstated along with the state's estate tax. The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, however, made changes to the estate tax for 2011 and 2012. One of those changes was an extension for 2011 and 2012 of the elimination of the state estate tax credit, which had been in effect since 2005.

The 2001 federal law also phased out the state pickup tax credit over a four-year period beginning in 2002. The credit was reduced by 25% in 2002, by 50% in 2003, by 75% in 2004, and was entirely eliminated in 2005. The impact on California of the reduction in the pickup tax is significant. The pickup tax remains for the generation skipping transfer tax for transfers prior to 2005; however, the revenue generated is not expected to be significant. Revenue collection estimates are based primarily upon projected receipts from estates with installment payment agreements in place.

3. ADMINISTRATION

The California estate tax is a self-assessed tax, administered by the State Controller's Office. The amount to be paid is equal to the maximum federal state death tax credit allowable, as calculated according to Federal Form 706. For deaths prior to 2005, a check in this amount and a state return, along with a copy of Federal Form 706, must be sent to the Controller's Office within nine months after the death of the deceased.

4. CODE

Revenue and Taxation Code Sections 13301-14302 and Sections 16700-16950

CHAPTER 3E

FUEL TAXES

HIGHLIGHTS

• Purpose	To maintain state and local public highways and roads and to fund certain aeronautical, harbor and watercraft, and off-highway motor vehicle activities.		
• Tax Base	Fuels used to propel motor vehicles, vessels, and aircraft.		
• Tax Rate	Gasoline Tax*	$0.30 per gallon	
	Aviation Gasoline Tax	$0.18 per gallon	
	Aircraft Jet Fuel Tax	$0.02 per gallon	
	Diesel Fuel Tax*	$0.13 per gallon	
	Interstate User Tax**	$0.445 per gallon	
	Use Fuel Tax	$0.06 - $0.18 per gallon or per gallon equivalent	
• Revenue		Gasoline Tax***	Diesel and Use Fuel Tax****
	2014-15	$5.346 billion	$366 million
	2015-16 (Est.)	$4.526 billion	$430 million
	2016-17 (Est.)	$4.213 billion	$516 million
• Administration	Board of Equalization (BOE)		

*Rate effective July 1, 2015 to June 30, 2016. Tax rates are subject to change, as explained in Fuel Tax Swap (see below).
**Rate effective July 1, 2015 to June 30, 2016.
***Including aircraft jet fuel.
****The two revenue streams are not currently tracked separately.

---

1. TAX OVERVIEW

California's fuel taxes fall into three distinct categories: The motor vehicle fuel tax **(gasoline tax), diesel fuel tax**, and the **use fuel tax.**

The Motor Vehicle Fuel Tax, which includes the gasoline tax and the aviation gasoline tax, is imposed on the removal of motor vehicle fuel from a terminal rack or a refinery rack into a truck, trailer, or railroad car, on the entry of the motor vehicle fuel into the state, and on certain other activities.

Motor vehicle fuels subject to the gasoline tax include gasoline, aviation gasoline, blends of gasoline and alcohol containing more than 15% gasoline, and any inflammable liquid used or usable for propelling motor vehicles. Fuels not subject to the gasoline tax include diesel fuel (taxed under the Diesel Fuel Tax Law) and kerosene, liquefied petroleum gas, ethanol, methanol and natural gas in liquid or gaseous form (taxed under the Use Fuel Tax Law).

The gasoline tax does not apply to inflammable liquids that do not contain gasoline or natural gasoline or that are specifically manufactured, distributed, and used for racing motor vehicles at a racetrack.

The **aircraft jet fuel tax**, which is also part of the Motor Vehicle Fuel Tax Law, is imposed on sales of aircraft jet fuel by an aircraft jet fuel dealer to an aircraft jet fuel user. Certified air common carriers, aircraft manufacturers or repairers, and the armed forces of the U.S. are not included in the definition of "aircraft jet fuel users" and are therefore not subject to this tax. In practice, the aircraft jet fuel tax is imposed primarily on nonscheduled airline carriers (private jets and private mail delivery carriers) and helicopters.

The **diesel fuel tax** is imposed under the Diesel Fuel Tax Law on the removal of diesel fuel from a terminal rack or a refinery rack into a truck, trailer, or railroad car, on the entry of the diesel fuel into the state, and on certain other activities. Diesel fuel means any liquid that is commonly or commercially known or sold as a fuel that is suitable for use in a diesel-powered highway vehicle. Dyed diesel fuel, which is intended solely for exempt off-highway use, is not subject to the tax.

Federal legislation passed in October 2005 changed the administration of the clear diesel fuel tax by requiring persons to prepay the tax on the quantity of diesel fuel used off-highway and then file a claim for refund of the diesel fuel tax based upon the number of gallons purchased that were used for off-highway purposes. California has not entirely conformed to this change in federal tax law. Under California law, exempt bus operators, train operators, and purchasers of diesel fuel for use on a farm for farming purposes may issue an exemption certificate to their vendor or supplier for their estimated exempt usage. The purchaser in these situations remains liable for the tax not used in an exempt manner; in the case of an exempt bus operator, the operator must report their taxable and nontaxable usage and pay any resulting tax.

California has participated in the International Fuel Tax Agreement (IFTA), with respect to California's diesel fuel tax, since January 1, 1996. Under the IFTA, interstate truckers are required to submit quarterly reports detailing the number of gallons of fuel they use in each state or Canadian province. Each trucker is required to file his or her report with a single home (base) state and is taxed based on where the trucker consumes fuel.

Interstate truckers who purchase their diesel fuel outside California for use in-state must pay an additional tax (over and above the California diesel fuel tax rate) that is equivalent to the statewide sales tax rate imposed on in-state purchases of diesel fuel. Conversely, interstate truckers are allowed a refund or credit on the equivalent sales tax rate when they purchase diesel fuel in-state but use it out-of-state. The "equivalent sales tax rate" imposed on interstate truckers is set annually by the BOE and is calculated based on the average retail price per gallon of diesel fuel in California and the combined average California state and local sales and use tax rate.

The **use fuel tax** is imposed on vendors and users of motor vehicle fuels that are not taxed under either the gasoline or diesel fuel tax laws, such as kerosene, liquefied petroleum gas, ethanol, methanol and natural gas (both liquid and gaseous) for use on state highways.

Effective January 1, 2015, the excise tax rates for both compressed natural gas (CNG) and liquefied natural gas (LNG) were changed to 8.87 cents per 5.66 pound of CNG used, and 10.17 cents per 6.06 pounds of LNG used. Vendors who sell these fuels as a motor vehicle fuel are required to label them as either a "gasoline gallon equivalent" (CNG) or a or a "diesel gallon equivalent" (LNG).

Both the state gasoline tax and the state aircraft jet fuel tax are part of the state sales tax base. Conversely, neither the state diesel fuel tax nor the state use fuel tax is part of the state sales tax base.

As a result of Proposition 26, approved by voters in the November 2, 2010, statewide election, the Legislature re-enacted the **Fuel Tax Swap of 2010**. Similar to the Fuel Tax Swap of 2010, the re-enactment reduced the sales and use tax imposed on sales of gasoline and replaced the lost revenues with an increase in the excise tax on gasoline, and on July 1, 2011, reduced the excise tax rate on diesel fuel and replaced the lost revenues with an increase in the sales and use tax rate imposed on diesel fuel sales. However, the re-enactment made the following changes related to diesel fuel:

> Effective July 1, 2011, in place of the additional 1.75% sales and use tax rate imposed by the 2010 fuel tax swap legislation on sales of diesel fuel, the re-enactment instead imposed an additional rate of 1.87%. In subsequent years, the reenactment would further change this rate as follows:
>
> - Effective July 1, 2012, increase the additional rate to 2.17%;
> - Effective July 1, 2013, decrease the additional rate to 1.94%; and
> - Effective July 1, 2014, and thereafter, reinstate the 1.75% additional rate.

Effective July 1, 2011, in place of the 2010 fuel tax swap's reduced excise tax rate on diesel fuel of 13.6 cents per gallon, the re-enactment decreased that rate further to 13 cents per gallon.

The "swap" was meant to maintain the status quo for fuels that are either fully or partially exempt from the sales and use tax, such as sales of aviation gasoline and diesel fuel used in farming activities, or fully or partially exempt from excise tax, such as diesel fuel used in farming operations, or by train operators or certain bus operators.

The fuel tax swap legislation was intended to be revenue neutral, so that the state's tax revenues would not be increased or decreased, nor would the taxpayers' tax burden be affected. To maintain revenue neutrality, the provisions of this "swap" require the BOE to each year adjust the *excise* tax rates on gasoline and diesel fuel – either upwards or downwards, beginning July 1, 2011, for gasoline, and July 1, 2012, for diesel fuel, so that the overall revenues derived from the imposition of state excise tax and sales and use taxes on sales of gasoline and diesel fuel remain the same. As required, the BOE set the tax rate for gasoline, for the period July 1, 2015 to June 30, 2016, at $0.30, a decrease of $0.06 from the previous rate of $0.36. The BOE set the tax rate for diesel fuel, for the period July 1, 2015 to June 30, 2016 at $0.13, which was an increase of $0.02 over the previous rate of $0.11.

2. TAX RATES

The State of California taxes various fuels at the rates listed below:

Fuel	Rate (per gallon, unless otherwise specified)
Gasoline, excluding aviation gasoline*	$0.30
Aviation gasoline	$0.18
Aircraft Jet Fuel	$0.02
Diesel 100% (including biodiesel)*	$0.13
Interstate Users (IFTA members)**	$0.445
Liquefied Petroleum Gas (LPG)	$0.06
Liquefied Natural Gas (LNG)	$0.1017 per 6.06 pounds
Compressed Natural Gas (CNG)***	$0.0887 per 5.66 pounds
Ethanol and Methanol	$0.09
Kerosene	$0.18

*Rate effective July 1, 2015 to June 30, 2016. Excise tax rates are subject to change, as explained in Fuel Tax Swap (see table below).

**Rate effective July 1, 2015 to June 30, 2016.

***Rate effective January 1, 2015.

Diesel fuel and fuels taxed under the Use Fuel Tax Law that are used in buses operated by transit systems, certain common carriers, public school districts, and community college districts are exempt from diesel and use fuel taxes but are, instead, taxed at a rate of $0.01 per gallon. The owner or operator of a vehicle propelled by liquefied petroleum gas, liquid natural gas, or compressed natural gas may pay an annual flat rate fuel tax based on the type or weight of the vehicle instead of the per gallon rate.

State/Federal Rate Linkage. The Federal government also imposes excise taxes on various fuels. The California gasoline, diesel, and certain use fuel tax rates are tied by statute to comparable federal taxes in order to maintain a minimum level of combined state and federal fuel tax revenue. The state/federal linked rate for gasoline taxes must be maintained at a minimum of $0.27 per gallon. Therefore, if the federal gasoline tax (which currently is $0.184 per gallon) were reduced below a rate of $0.09 per gallon and federal financial allocations to California were also reduced, the state gasoline tax would be recalculated so that the combined Federal and state excise tax on motor vehicle fuel would equal $0.27 per gallon. In addition to this combined rate, the fuel tax swap imposes an additional tax, recalculated to be effective July 1 of each year, which would decrease the overall combined rate accordingly.

The same type of linkage is true for both diesel and use fuel taxes that are imposed at a state rate of $0.13 and $0.18 per gallon, respectively. Currently, the only use fuel taxed at $0.18 per gallon and subject to the state/federal linkage is kerosene fuel. If the federal diesel or kerosene fuel tax rate (which is currently $0.244 per gallon) were reduced below a rate of $0.15 per gallon and federal financial allocations to California were also reduced, the state diesel and kerosene taxes would be recalculated so that the combined Federal and state taxes would equal $0.33 per gallon for kerosene, and in the case of diesel fuel what it would have been in the absence of the federal reduction (the cap for diesel fuel was removed pursuant to the re-enactment of the fuel tax swap). However, with respect to diesel fuel, the increase of the state excise tax rate to $0.13, pursuant to the fuel Tax Swap adjustment may affect this recalculation, should a future reduction in the federal excise tax and corresponding allocation to the state occur.

Rates Applicable to Gasoline

	Effective July 1, 2015	**Effective July 1, 2016**
Motor Vehicle Fuel Tax – excluding aviation gasoline (cents per gallon)	$0.30	To be determined
Motor Vehicle Fuel Tax – aviation gasoline only (cents per gallon)	$0.18	$0.18

Rates Applicable to Gasoline (Continued)

	Effective July 1, 2015	Effective July 1, 2016
Sales and Use Tax Rate on Motor Vehicle Fuel	2.25% plus applicable district taxes	2.25% plus applicable district taxes
Prepaid Sales Tax on Motor Vehicle Fuel (cents per Gallon)	$0.05	To be determined*

Rates Applicable to Diesel Fuel

	Effective July 1, 2015	Effective July 1, 2016
Diesel Fuel Tax (cents per gallon)	$0.13	To be determined
Sales and Use Tax	9.25% plus applicable district taxes	9.25% plus applicable district taxes
Prepaid Sales Tax on Diesel Fuel (cents per gallon)	$0.225	To be determined

*AB 2679 (Committee on Transportation), Chapter 769, Statutes of 2012, changed the date the BOE sets the prepayment rates to align with the fuel tax swap adjustment dates. The BOE will set the prepayment rate by March 1 with the rate change taking effect on July 1.

3. EXEMPTIONS AND/OR REFUNDS

Excise tax exemptions are allowed for any fuel that is:

- Exported out of state;
- Sold to certain consulate officers and employees;

- Used off public roads (so-called off-highway use); and,
- Used for certain agricultural and/or construction equipment.

An exemption is also allowed for dyed diesel fuel. In this case, the fuel is dyed to make it readily apparent that it is intended for exempt use.

Furthermore, a partial excise tax exemption applies to certain bus operations. The following bus operations are subject to a tax of $0.01 per gallon on the diesel fuel used:

- Transit districts, transit authorities, or cities owning and operating local transit systems;
- Common carriers operating exclusively within a city limit and not subject to the jurisdiction of the Public Utilities Commission (PUC);
- Passenger stage corporations under the jurisdiction of the PUC, when used on routes of no greater than 50 miles; and,
- Public school districts, county superintendents of schools, or community college districts.

Excise tax refunds are given to anyone who pays fuel taxes and subsequently uses the tax-paid fuel in an exempt manner.

4. REVENUE

Revenues from the Motor Vehicle Fuel Tax, Diesel Fuel Tax, and the Use Fuel Tax accrue to the State Transportation Fund, a special fund that provides the major source of funds for maintaining, replacing, and constructing state highway and transportation facilities. Revenues from jet fuel and aviation gasoline taxes are transferred to the Aeronautics Account for use at certain airports.

Through various statutory allocation formulas, just over one-third of the revenue from all three taxes is shared with local governments; just under two-thirds remains with the state.

Taxes imposed under the Motor Vehicle Fuel Tax Law generated $5.346 billion in fiscal year (FY) 2014-15, the vast majority of which accrued from motor vehicle fuel taxes. Typically, only a few million dollars per year results from imposition of aircraft jet fuel taxes. Both taxes collectively are expected to raise $4.526 billion in FY 2015-16.

The diesel fuel tax and use fuel tax generated $366 million in FY 2014-15 and are expected to increase to $431 million in FY 2015-16. Diesel fuel tax and use fuel tax revenues are expected to increase to $516 million by FY 2016-17. At present, the two revenue streams are not tracked separately.

Together, all of these Highway User's Taxes generated roughly 4.0% of total state revenues during FY 2014-15. As reflected above and in accordance with the State Constitution, all motor vehicle fuel tax revenue is dedicated for transportation purposes, which is not likely to change as a result of the enactment of the Fuel Tax Swap and passage of Proposition 22 in 2010.

5. ADMINISTRATION

The BOE administers all motor vehicle fuel taxes; however, the State Controller processes gasoline tax payments and refunds.

The aircraft jet fuel tax is imposed upon every aircraft jet fuel dealer for each gallon of such fuel sold to an aircraft jet fuel user or used by the dealer as an aircraft jet fuel user. Dealers are licensed and required to pay the tax monthly to the BOE.

The gasoline tax and diesel fuel tax are paid by suppliers at the time of removal of the fuel at the refinery rack or terminal rack. The tax is included in the selling price to the ultimate purchaser unless, under specified circumstances, the ultimate purchaser provides an exemption certificate for the number of gallons estimated to be used off-highway or for exempt bus or farming operations. Suppliers are licensed and pay the tax monthly to the BOE.

As provided in the Fuel Tax Swap, the state excise tax rate for both gasoline and diesel fuel will be adjusted annually by the BOE to maintain revenue neutrality. The rates will be set by the BOE on March 1 and will be effective July 1 each year.

Interstate truckers report and pay their diesel fuel tax liability through IFTA returns on a quarterly basis. If California is not the trucker's base state, the funds are transferred to California by the responsible IFTA member state or Canadian province.

The use fuel tax is imposed on the user but collected by the vendor who sells the fuel. A permit is required of the vendor and user. Retailers are required to collect the use fuel tax at the time they sell the fuel to persons who use the fuel. Retailers and users with use fuel permits may claim credit for the tax paid to vendors when they file their use fuel tax returns. The tax may be collected at quarterly intervals designated by BOE.

6. CODE

Revenue and Taxation Code Sections 7301-8526 [Motor Vehicle Fuel (Gasoline) Tax]

Revenue and Taxation Code Sections 7385-7398 (Aircraft Jet Fuel Tax)

Revenue and Taxation Code Sections 8601-9355 (Use Fuel Tax)

Revenue and Taxation Code Sections 8691, 9401-9433, 60130 (Fuel Taxes and

International Fuel Tax Agreements)

Revenue and Taxation Code Sections 60001-60708 (Diesel Fuel Tax)

California Constitution, Article XIX, Section 1

CHAPTER 3F

MOTOR VEHICLE FEES

HIGHLIGHTS

- Tax Base

For vehicle license fees (R&TC §§10751 - 10753), the "market value" of the vehicle. The market value of a vehicle or trailer coach is determined based on the cost of the vehicle at the time of purchase. The cost used to determine market value **does not** include any sales or use tax, local tax, or interest, finance or carrying charges. Weight fees for commercial vehicles are determined by the unladen weight, gross weight, or combined gross vehicle weight, depending on the size of the vehicle.

- Tax Rate

Effective July 1, 2011, vehicle license fees are 0.65% of the market value. The annual registration fee was changed to a flat $70 ($46 registration plus $24 California Highway Patrol). From May 19, 2009 to June 30, 2011, license fees were 1.15% of the market value of the vehicle. From January 1, 2005, to May 18, 2009, the license fees were 0.65% of the market value.

- Revenue

	VLF	Motor Vehicle Account	Weight Fees
2013-14 (actual)	$2.17 billion	$3.06 billion	$976 million
2014-15 (actual)	$2.29 billion	$3.16 billion	$1.02 billion
2015-16 (est.)	$2.28 billion	$3.24 billion	$1.01 billion

- Administration

Department of Motor Vehicles (DMV)

- Collection

Franchise Tax Board (FTB) (delinquencies only)
Department of Motor Vehicles (DMV)

1. TAX OVERVIEW

The Vehicle License Fee **(VLF)**, also known as the automobile in-lieu tax, is levied for the privilege of operating a vehicle on the public highways of California. The tax is imposed in-lieu of a local personal property tax on vehicles and trailer coaches. The fee is paid annually as part of the vehicle registration process.

The **motor vehicle registration fee** is levied annually on all motor vehicles, trailer coaches, and other vehicles that use public highways.

Weight fees are levied annually for the operation of certain commercial motor vehicles.

Other vehicle-related fees include driver's license fees, transfer of title fees, motor-carrier tax and others that are not discussed in this book.

2. TAX RATES

Existing law imposes a VLF for the privilege of operating a vehicle on California's public highways. Although called a fee, the VLF is a tax imposed in lieu of a local personal property tax on vehicles. The VLF is imposed at a rate of 0.65% on a vehicle's market value, which equals the manufacturer's suggested base price plus options, adjusted by a depreciation schedule specified in state law. Pursuant to the California Constitution, VLF revenue is allocated to local governments. Approximately 25% of VLF revenue is deposited into the Motor Vehicle License Fee Account in the Transportation Tax Fund and is split between cities and counties. This portion of VLF allocations is called "base VLF" and can be used by local governments for any spending purpose. The remaining 75% of local government VLF funds are restricted to funding various health, mental health, and social services programs shifted to the counties as part of the 1991 realignment. This portion of the VLF backfill is called "realignment VLF".

3. VLF HISTORY

Beginning in 1998, the state offset a portion of the VLF, which had the effect of reducing the 2% rate. In 1999, the VLF was reduced by 25% (i.e., the VLF offset equaled 25%, and the VLF rate charged to vehicle owners equaled 1.5%). The VLF offset was increased from 25% to 35% in 2000, and from 35% to 67.5% in 2001. Previous laws [Revenue and Taxation Code Section 10754(a)(3)(A) and 10754(a)(3)(B)] provided for a 67.5% offset and requires the state to transfer the amount of this offset to the Motor Vehicle License Fee Account in the Transportation Tax Fund and the Local Revenue Fund, for the benefit of local governments.

On June 19, 2003, Governor Gray Davis' administration invoked Revenue and Taxation (R&T) Code Section 10754(a)(3)(C) and declared that there were insufficient moneys to fully fund the 67.5% VLF offsets required by R&T Code Section 10754(a)(3)(A). Governor Davis' declaration triggered a repeal of the 67.5% VLF offset, effective for vehicle owners with final VLF due dates on or after October 1, 2003. Pursuant to Governor Davis' declaration, the state ceased backfilling local governments for revenue losses they experienced as a result of VLF offsets in place beginning on June 20, 2003. Consequently, local governments did not receive any VLF backfill corresponding to the period between June 20, 2003 and October 1, 2003. This "VLF backfill gap" was originally estimated by the Department of Finance to be $825 million, but was later revised upward to $1.3 billion. AB 1768 (Committee on Budget and Fiscal Review), Chapter 231, Statutes of 2003, anticipated that local governments would loan the amount of the VLF backfill gap to the General Fund and would be repaid in FY 2006-07.

On November 17, 2003, Governor Schwarzenegger issued Executive Order S-1-03, reinstating a 67.5% offset and returning the effective rate of the VLF to 0.65%. This Executive Order directed the DMV to reinstate the offset as soon as administratively feasible. In its mid-year spending proposals, the Administration indicated that fully funding the offset in excess of the $825 million loan amount would require $3.625 billion. However, because the $825 million estimate had been increased to $1.3 billion (an increase of $475 million), the Administration asked the Legislature to increase the local government loan referenced in AB 1768 to $1.3 billion and to approve an appropriation of $3.15 billion for local governments ($3.625 billion minus $475 million).

On December 18, 2003, reacting to the Legislature's decision to recess without acting upon the Governor's request to address local government reimbursement, the Governor invoked his powers under Budget Act Control Sections 27 and 28. In a letter sent from the Department of Finance to the chairs of the Senate and Assembly Budget and Appropriations Committees on behalf of the Governor, Finance Director Donna Arduin stated that the total estimated shortfall in local government reimbursement for the entire 2003-04 FY had been revised downward from the prior $3.15 billion estimate and now equaled $2.652 billion over the $1.3 billion "gap" amount. Relying upon his powers to spend at a rate that would incur a deficiency pursuant to the 2003 Budget Act, Governor Schwarzenegger approved a deficiency appropriation in the amount of $2.503 billion from the General Fund to replace revenue lost by local governments from VLF offsets. This appropriation replaced an in-lieu appropriation of $1,000 that was previously contained in the 2003-04 Budget Act.

On February 26, 2004, the Legislature sent Governor Schwarzenegger a bill revising the appropriations contained in AB 1768 [SB 1057 (Committee on Budget and Fiscal Review), Chapter 24, Statutes of 2004.] SB 1057 updated the Legislature's plans to reimburse local governments for the VLF backfill gap. SB 1057 directed the Controller to provide this reimbursement to local governments on August 15, 2006, unless an earlier transfer is authorized by the Legislature. The bill also authorized the Controller, with the approval of the Department of Finance, to advance reimbursements to local governments that could demonstrate that they would experience a hardship (defined in the bill) if they must wait until August 15, 2006 for reimbursement. Total advances allowed under the provisions of the bill were capped at $40 million.

Beginning in 2005, SB 1096 (Chapter 211, Statutes of 2004) permanently eliminated the 67.5% offset and determined that the VLF would be 0.65% of the market value or purchase price of the vehicle. In 2009, the VLF was increased to 1.15% of the market value or purchase price of the vehicle. Beginning July 1, 2011, the VLF returned to 0.65%.

4. VLF TAX BASE

The market value is determined based on the cost price of the vehicle. The cost price used to determine market value **does not** include any sales or use tax, local tax, or interest, finance or carrying charges and is adjusted by a depreciation schedule, as follows:

For motor vehicles, the schedule is based on an 11-year depreciation period. The base equals 100% of the purchase price in the year of sale, and is scaled down each year to 15% of purchase price in the eleventh year and thereafter. Used vehicles are placed at the top of the depreciation schedule when acquired by a new owner, with the tax based on the current purchase price of the used vehicle (there are exceptions to this rule for transfers between close family members). The following table details this depreciation schedule:

1st year value	100% of market
2nd year	90%
3rd year	80%
4th year	70%
5th year	60%
6th year	50%
7th year	40%
8th year	30%
9th year	25%
10th year	20%
11th and later years	15%

For trailer coaches or mobilehomes not on the local property tax roll, an 18-year depreciation schedule is used. Fees are based on 85% of market value in the year of sale and are scaled down to 15% of market value in the 18th and succeeding years. (See Chapter 6G of this Reference Book for more information on mobilehome taxation.)

5. REGISTRATION RELATED FEES

The annual registration fee for most vehicles is $70, which includes a $46 base registration fee and a $24 California Highway Patrol (CHP) fee. The CHP portion is subject to adjustment for increases in the California Consumer Price Index (CPI). A $2 portion of the registration fee supports the Alternative Fuel and Vehicle Technology Fund, and $1 supports the Enhanced Fleet Modernization Fund.

There is also a $20 smog abatement fee on vehicles six or less model years old that are exempt from biennial smog requirements.

In addition, counties may impose a fee up to $7 for air quality management districts for motor vehicles. Counties in the San Joaquin Unified Air Pollution Control District (Fresno, Kern, Kings, Madera, Merced, San Joaquin, Stanislaus, and Tulare) are allowed to impose a fee up to an additional $30. In December 2010, the California Air Resources Board approved the fee of $12. The fee increase was implemented on September 10, 2011.

Counties may also impose a $1 or $3 fee for the Service Authority for Freeway Emergencies (SAFE) program, a $1 or $3 Vehicle Theft Deterrence Fee, a $1 or $3 Abandoned Vehicle Abatement Fee, and a $1 or $3 fee (depending on vehicle type) for law enforcement fingerprinting identification systems. AB 767 (Chapter 241, Statutes of 2013) allows counties to increase their Vehicle Theft Deterrence Fee in an amount between $2 to $6. Effective January 1, 2015, Marin and Sonoma counties impose a $2 or $4 Vehicle Theft Deterrence Fee. Effective April 1, 2015, Sacramento and Santa Cruz counties impose a $2 or $4 Vehicle Theft Deterrence Fee. Effective July 1, 2015, San Mateo and Solano Counties impose a $2 or $4 Vehicle Theft Deterrence Fee. Effective January 1, 2016, Kings and Los Angeles Counties impose a $2 or $4 Vehicle Theft Deterrence Fee. Effective March 1 2016, San Bernardino County will impose a $2 or $6 Vehicle Theft Deterrence Fee. AB 2393 (Chapter 292, Statutes of 2014) allows counties to increase their fingerprint identification (FID) systems fee in an amount between $2 or $6. Effective March 1, 2016, Alameda and San Bernardino Counties will impose a $2 or $6 FID Fee.

Five counties (Alameda, Marin, San Mateo, San Francisco/city, and Santa Clara) impose a County Transportation Projects fee of $10 for local road repairs, pedestrian safety improvements, and transit reliability improvements throughout the city.

Instead of paying the annual registration fee and any supplemental fees, an owner may pay a $20 planned non-operation (PNO) fee if it is anticipated that the vehicle will not be operated during the subsequent registration year(s). This PNO fee is also subject to annual changes under the CPI and was last changed on January 1, 2015 from $19 to $20.

The City and County of San Francisco has the authority to impose a local registration fee of $10 and a Vehicle License Fee surcharge of up to 1.35% on the depreciated value of the county's resident's vehicle. Proceeds of either of these levies are required to be spent on public transit. Imposition of either surcharge requires approval of two-thirds of the voters voting in an election on the issue. The fees have not been imposed to date.

The weight fee for a commercial vehicle depends on the unladen (empty) weight of the vehicle, the declared gross vehicle weight, or combined gross vehicle weight for commercial vehicles. A commercial vehicle is defined as one designed to carry property or used to transport persons for profit. For example, a pickup truck is a commercially-plated vehicle because of its design. A passenger vehicle used as a taxi is commercially-plated because of its use to transport persons for profit.

6. EXEMPTIONS

There are many exemptions to the VLF. The most common are non-resident military, government-owned vehicles, farm vehicles (used off-road), and vehicles owned and driven on federal Indian reservations and Rancherias. Vehicles owned by qualifying disabled veterans (Vehicle Code Section 9105) or a dollar amount ($20,000-$30,000) of the market value of a mobilehome or trailer coach are exempt from the VLF. (R&TC Section 10788.)

7. FEDERAL TAXATION

The federal government imposes a use tax on certain highway vehicles and a "gas guzzlers" tax on manufacturers of cars with low mileage ratings. All other states have fees similar to those imposed in California.

8. REVENUE

Of the total amount of VLF revenue available to local governments, approximately 25% is deposited in the Transportation Tax Fund. This revenue is equally divided between cities and counties. The funds are then further divided among cities and among counties on a population based formula.

The remaining 75% of VLF revenues are deposited into the VLF Account of the Local Revenue Fund. These funds partially finance certain health and welfare programs, the responsibility for which the state transferred to local agencies.

In 2009, a VLF tax rate was temporarily increased from 0.65% to 1.15% for VLF collected between May 19, 2009 and June 30, 2011. Of the increased amount of VLF collected during that period, 0.35% was deposited into the State's General Fund and 0.15% was dedicated to the Local Safety and Protection Account.

Trailer coach VLF revenues are deposited in the state General Fund. Before fiscal year (FY) 1992-93, these funds were distributed to cities, counties, and school districts on a situs basis.

The VLF on motor vehicles totaled $2.17 billion in FY 2013-14 and $2.29 billion in FY 2014-15. The VLF is expected to raise $2.28 billion in FY 2015-16.

Out of each $70 vehicle registration fee, $24 provides supplemental support for the California Highway Patrol. The remaining $46 supports the activities of all of the departments funded by the Motor Vehicle Account including Motor Vehicles, Highway Patrol, Justice, and Air Resources Board, $2 supports the Alternative Fuel and Vehicle Technology Fund and the remaining $1 supports the Enhanced Fleet Modernization Fund. The Motor Vehicle Account held $3.06 billion in FY 2013-14 and is expected to raise $3.14 billion in FY 2014-15 and $3.24 billion in FY 2015-16.

Weight fees generated $976 million in FY 2013-14 and $1.02 billion in FY 2014-15. Weight fees are expected to generate $1.01 billion in FY 2015-16. Weight fees accrue to the State Highway Account and are used for highway construction.

9. ADMINISTRATION

Most fees are administered by DMV. Registration and license fees are paid annually at the time of registration. Authority for collecting delinquent vehicle license and registration fees was transferred to the FTB as part of the FY 1993-94 budget package. The FTB is responsible for collecting delinquent renewal fees.

10. CODE

Revenue and Taxation Code Sections 10751-11156

Motor Vehicle Code Sections 9101-9250

CHAPTER 3F
MOTOR VEHICLE FEES

CHAPTER 3G

TIMBER YIELD TAX

HIGHLIGHTS

• Purpose	State-levied tax on timber when harvested, in lieu of the property tax on standing timber. Revenues returned to local governments.
• Tax Base	"Immediate harvest value" of timber, by species and region, as established semiannually by the Board of Equalization (BOE).
• Tax Rate	Set annually, based on average property tax values in timber counties. For 2016, the rate is 2.9% of the timber's value at the time of harvest.
• Revenue*	2013-14 (Actual) $8.2 million 2014-15 (Actual) $9.9 million 2015-16 (Estimate) $11.0 million Allocated to counties based on location of harvest.
• Administration	BOE

*Source: BOE

---

1. TAX OVERVIEW

Two different taxes are imposed on timber property: The **timber yield tax** and the **property tax on timberland**. The timber yield tax is a tax on the value of harvested timber. The property tax on timberland applies to the underlying property.

While the timber yield tax is a state tax, the taxation of timberland is part of the local property tax, which is administered by the county assessor. (See Chapter 4 of this Reference Book for more information on the property tax.)

In 1977, the property tax on standing timber was replaced by a state timber yield tax. The reasons for this change included the pressure the property tax placed on timber owners to harvest prematurely, the cash flow stress caused by annual property tax liabilities on timberland owners when no income was generated by the standing timber, and county concerns that their post-harvest property tax revenues would decline sharply.

2. TAX RATE

The timber yield tax rate is set annually by the BOE, based on the countywide average property tax rate in 17 timber counties. The rate in recent years has been 2.9% of the "immediate harvest value" of the cut timber. Immediate harvest values are not actual sales prices of the timber, but are amounts established semiannually by the BOE, by timber species and region based on analysis of market transactions.

3. REVENUE

Timber yield tax revenues are collected by the state. After state administrative costs are deducted, remaining revenues are returned to local agencies.

The timber yield tax generated \$8.2 million in fiscal year (FY) 2013-14, it generated \$9.9 million in FY 2014-15, and is estimated to generate \$11.0 million in FY 2015-16.

Revenues are allocated to timber-producing counties in the same proportion that revenues are generated from each county by so-called "location of harvest". Within each county, revenues are also allocated on a proportional basis. However, cities, school districts, special districts, and county governments receive those funds based upon a "minimum revenue guarantee" which was determined during a three-year base period in the mid-1970s. Because timber yield revenues have decreased since the base period, the actual dollar amounts allowed may be less, but the proportional shares remain unchanged.

4. ADMINISTRATION

The timber yield tax is administered by the BOE, which sets the timber harvest values semiannually, collects the tax from timber owners, and allocates revenues to local agencies pursuant to the formula in state law. The BOE is authorized to place a lien on the assets of individuals with an outstanding timber tax liability. The California Department of Forestry has minor administrative duties as well.

5. CODE

Revenue and Taxation Code Sections 38101-38908

Government Code Section 27423, and Sections 51100-51155

CHAPTER 3H

PRIVATE RAILROAD CAR TAX

HIGHLIGHTS

• Purpose	The tax is in lieu of all other property taxes on private railroad cars.	
• Tax Base	Fair market value of the car, assessed annually, adjusted for the amount of time during the year the car is in the state.	
• Tax Rate	Prior year's statewide average property tax rate on other properties. The 2015-16 rate is 1.141%.	
• Revenue	2014-15 (Actual)	$8.9 million
	2015-16 (Actual)	$8.9 million*
	2016-17 (Estimate)	$8.9 million*
• Administration	Board of Equalization (BOE)	

*Source: Governor's Budget Summary of 2016-17

1. TAX OVERVIEW

Private railroad cars are railroad cars that are owned by companies who haul their own products, lease the cars to other shippers, or contract to carry the freight of other companies. They are not owned by the railroad companies.

The **private railroad car tax** is a property tax on privately owned railroad car fleets operating within the state. The tax is directly levied and retained by the state and is in lieu of all local ad valorem property taxes on private railroad cars. The cars are assessed and taxed by the state since it is impractical for individual counties to subject railroad cars, which can be moved frequently, to the local property tax.

The tax is based on the period of time each car is in the state and its fair market value.

Cars owned by the railroads are not subject to the private railroad car tax because they are subject to the general property tax and are included in the overall value of the railroads.

2. TAX RATE

The tax rate applied to private railroad cars is the prior year's statewide average property tax rate. The fiscal year (FY) 2014-15 rate, applicable to 2015-16 assessments, is 1.141%. The BOE annually determines the private railroad car tax rate.

3. REVENUE

Although the private railroad car tax is assessed and taxed by the state in lieu of local ad valorem property tax, federal law requires parity between the tax assessed against private railcars and that assessed against other business property. This federal law, the "4-R" Act, discussed more completely in Chapter 4, specifically provides that railroad cars cannot be taxed differently than other commercial and industrial property. After numerous legal challenges to the tax rate imposed in light of the required tax parity, the BOE taxes private railcars using a statewide assessment ratio representing the property percentage of market value. In FY 2015-16, this ratio was 74.11% of fair market value.

The private railroad car tax is a state General Fund revenue source. In FY 2014-15 the tax generated $8.9 million. Revenues are also estimated at $8.9 million in FY 2015-16.

4. ADMINISTRATION

The BOE makes annual assessments of private cars, and levies and collects the tax.

5. CODE

Revenue and Taxation Code Sections 11201-11702

CHAPTER 3I

EMERGENCY TELEPHONE USERS' SURCHARGE

HIGHLIGHTS

• Purpose	Funds local government costs for implementation and operation of the 9-1-1 emergency telephone system.
• Tax Base	All charges for: (1) intrastate telephone communication services in California, (2) Voice over Internet Protocol (VoIP) service, and (3) Prepaid Mobile Telephony Service that provides access to the 9-1-1 emergency system by utilizing the digits 9-1-1 by any service user in California.
• Tax Rate	0.75% (effective through December 31, 2016).
• Revenue	FY 2014-15 (Actual) $ 97.664 million FY 2015-16 (Estimate) $ 91.471 million FY 2016-17 (Estimate) $ 85.670 million
• Administration	Board of Equalization (BOE) and Governor's Office of Emergency Services (Cal OES)

1. TAX OVERVIEW

In 1972, the Legislature passed a measure calling for statewide implementation of a 9-1-1 emergency telephone system. The installation and operation of the system has been funded by the Emergency Telephone Users' surcharge applied to intrastate (within California) telephone calls and Voice over Internet Protocol (VoIP) service that provides access to the 9-1-1 emergency system by utilizing the digits 9-1-1 by any service user in the state. The surcharge was established in 1976, and the system was completed in December 1985 for wireline-enhanced 9-1-1. Revenues pay for system replacements, enhancements and operational costs.

The Prepaid Mobile Telephony Services surcharge (MTS) was enacted by Assembly Bill 1717 and became effective January 1, 2016. The surcharge is collected by the seller from each prepaid consumer at the time of each retail transaction in this state and shall be imposed as a percentage of the sales price of each retail transaction. The law will remain in effect until January 1, 2020, unless a later enacted statute that is enacted before

January 1, 2020, deletes or extends that date. Revenues pay for system replacements, enhancements and operational costs.

2. TAX RATE

The Emergency Telephone Users' surcharge and the Prepaid MTS surcharge rates vary, depending on funding needs; however, in no event shall either surcharge rate in any year be greater than three-quarters of one percent nor less than one-half of one percent. Each year, the Cal OES determines the rate it estimates will produce sufficient revenue to fund the current fiscal year's costs for the 9-1-1 program. If warranted, the Cal OES proposes a change in the surcharge rate for the following period.

Charges for lifeline services and for services from public coin-operated telephones are exempt from the surcharge.

3. REVENUE

Surcharge revenues are aggregated from the Emergency Telephone Users' and Prepaid MTS. These revenues accrue to a special 9-1-1 fund (State Emergency Telephone Number Account or SETNA) at the current rate of 0.75%. The actual surcharge revenues were $97.664 million in fiscal year (FY) 2014-15. Revenues are estimated be $91.471 million in FY 2015-16(*) and $85.670 million in FY 2016-17(*).

4. ADMINISTRATION

The 9-1-1 tax is collected from consumers by the telephone companies or sellers of pre-paid mobile telephones and is remitted to the BOE. Additionally, every California consumer who purchases intrastate telephone, VoIP service, or Prepaid MTS from a service supplier that does not collect the surcharge is required to register and pay those funds to the BOE.

The Public Safety Communications of the Cal OES establishes minimum technical and operational standards for local systems and approves the funding necessary to implement and operate each system.

5. CODE

Revenue and Taxation Code Sections 41001-41176 and prepaid MTS Code Sections 42001-42111.

(*) Revenues in FY 2015-16 and FY 2016-17 include the estimated Prepaid Mobile Telephony Services of $12.659 million.

CHAPTER 3J

UNEMPLOYMENT INSURANCE

HIGHLIGHTS

• Purpose	Funds unemployment benefits for former employees who are currently unemployed.	
• Taxable Wage Limit	First $7,000 of each employee's annual wage.	
• Contribution Rate	The Unemployment Insurance (UI) rate schedule in effect for 2016 is Schedule "F+". This is Schedule F plus a 15% emergency surcharge and provides for UI contribution rates from 1.5% to 6.2%. In addition, employers with a positive reserve account balance as of the calculation date must pay the Employment Training Tax of 0.1%.	
• Revenue	2012-13	$ 5.61 billion*
	2013-14	$ 5.74 billion*
	2014-15	$ 5.84 billion*
• Disbursements	2012-13	$ 6.31 billion*
	2013-14	$ 6.25 billion*
	2014-15	$ 5.70 billion*
• Administration	Employment Development Department (EDD)	

*Source: EDD

1. TAX OVERVIEW

The **Unemployment Insurance (UI)** contribution funds the cost of benefits for the UI program administered by California's EDD. It is financed by employers who have paid in excess of $100 in wages for employment during any calendar quarter. The contribution is paid on the first $7,000 of wages paid by an employer to each employee during any calendar year.

All contributions paid are deposited in the UI Trust Fund maintained by the United States Department of the Treasury. The EDD draws down funds from the UI Trust Fund as needed to pay UI benefits to eligible California workers. The UI contribution revenues may be used only for payment of program benefits.

The UI benefits are funded entirely by employers. In California, there are three methods of paying the UI contribution: the tax rated method, the reimbursable method, and the School Employees Fund method. Private sector employers are required to use the tax rated method, therefore, the majority of California employers finance their UI costs through this method. The other two financing methods (i.e. reimbursable and School Employees Fund) are only available to public entities, non-profit organizations, public school districts, county offices of education and community college districts. The information provided in this publication applies only to employers who pay their UI contributions through the tax rated method.

Regardless of the method for financing their UI costs, every employer is assigned an account number by the EDD. However, an individual account, called a reserve account, is maintained only for each employer who pays UI contributions using the tax rated method. The reserve account established for each employer has no monetary value and cannot be reimbursed to the employer. This account is used to compute the employer's contribution rate, as discussed below.

The **Employment Training Tax (ETT)** funds training programs to retain workers in targeted industries to improve the competitiveness of California companies. Like the UI contribution, the ETT is paid by the employer. Employers subject to ETT pay at a rate set by statute to be 0.1% (.001) on the first $7,000 in wages paid by an employer to each employee in a calendar year. Only employers with a positive reserve account balance as of the calculation date are subject to ETT. The Employment Training Panel administers the employment training funds collected and has the discretion to allocate the funds to economic development, special employment training, and/or welfare to work.

2. CONTRIBUTION RATE

Unemployment Insurance Rate. New employers are assigned a UI rate of 3.4% for a period of two to three years. Each employer's subsequent contribution rate is based on that individual employer's "experience rating" and on the contribution rate schedule in effect for all employers during the year.

- <u>Contribution Rate Schedules.</u> There are seven different UI contribution rate schedules (AA, A, B, C, D, E, and F, ranging from lowest to the highest) and 38 different rates within each schedule. Depending on the schedule in place, UI contribution rates can range from a low of 0.1% to a high of 5.4%.

  The contribution rate schedule in effect for any given year depends on the balance in the UI Fund and total wages paid in California. Generally speaking, when the balance in the UI Fund decreases, a higher contribution rate schedule is triggered. When the balance in the Fund increases, a lower contribution rate schedule is triggered. A change in contribution rate schedule affects the rates applied to all employers.

The UI contribution rate schedule in effect for 2016 is Schedule "F+". This is Schedule F plus a 15% emergency surcharge, rounded to the nearest tenth. Schedule "F+" provides for UI contribution rates from 1.5% to 6.2%.

- Experience Ratings. The experience rating system measures the relationship between UI contributions paid by an individual employer, benefits paid to that employer's workers, and growth in an employer's work force. Generally, employers who maintain a stable work force and timely file and pay UI contributions have a more favorable experience rate (and therefore lower UI contribution rates) than employers who experience high turnover, large fluctuations in payroll, and/or are late in filing and paying their UI contributions.

  An employer's experience rating is based on that employer's reserve ratio, which is the ratio of the employer's reserve account balance on July 31, to the employer's average base payroll. The reserve ratio is then compared to the applicable contribution rate schedule in effect for the coming year to determine the employer's UI contribution rate.

  The reserve account balance is calculated as follows:

  a) An employer's UI reserve account is credited with UI contributions paid by the employer.

  b) The value of UI benefits paid to the employer's former employees is subtracted from the employer's reserve account.

  c) Interest earned on the entire UI Fund is credited to the reserve account of each employer with a positive reserve account balance on a proportionate basis.

  d) Charges and credits to reserve accounts resulting from prorations made on amounts that result from activity involving all employers' accounts. Under certain circumstances, law specifies that benefits not be charged against a former employer but must, instead, be charged to all employers who participate in the UI Fund. These benefits are called socialized benefits. Some socialized benefit costs relate to specific eligibility provisions. For example, benefits paid to employees who become unemployed as a result of the need to escape domestic violence. Other socialized benefit costs include the total UI benefits paid in error or because of fraud and the total annual increase of all negative reserve account balances. These factors are beyond the individual employer's control and are, therefore, shared by all employers according to the ratio of each employer's taxable wages to those of all employers. This ratio is applied to the balances of the individual items and a portion of the credits and charges goes to each employer.

e) The resulting reserve account balance is then divided by the employer's average annual taxable payroll for the preceding three years. The result equals the reserve ratio.

A high-reserve ratio (i.e. high reserves and few benefits paid) produces a lower experience rating and thus a lower UI contribution rate. A low-reserve ratio (i.e., low reserve account balance and many benefits paid) produces a higher experience rating and thus a higher UI contribution rate.

Employers may make voluntary contributions to their reserve accounts to obtain a lower UI contribution rate for a given year, although rate reductions triggered by voluntary contributions cannot lower an employer's rate by more than three rate steps (i.e., a few tenths of one percent). Furthermore, voluntary contributions are only allowed during relatively good economic times; they are not allowed during years when the two highest rate schedules (E and F) are in effect, or in calendar years in which the emergency solvency surcharge is in effect.

Each December, the EDD automatically notifies all tax-rated employers of their UI contribution rates and their reserve account balances. In addition, when the UI contribution rate schedule is not E or F, the EDD notifies eligible employers of the exact amount of voluntary payments needed to lower their UI contribution rates, together with the UI contribution rate reductions that would result from voluntary payments.

Employment Training Tax. Any employers subject to ETT, as discussed above, pay an additional 0.1% regardless of their UI contribution rate.

3. EXCLUSIONS

There are several reasons why the wages earned by an individual may be excluded from UI contributions. Some of the more common types of exclusions include wages earned by:

- Certain family members in family employment;
- Elected officials acting in their official capacity;
- Employees performing services for a church;

- Certain students, student nurses, newspaper carriers, and golf caddies; and,
- Certain domestic workers who receive less than $1,000 in cash wages during a calendar quarter.

Generally, employers who are not required to pay UI contributions for certain employees are allowed to elect such payments. The primary exception to this rule involves elected officials, whose employers may not make UI payments on their behalf.

4. BENEFITS

Unemployment insurance (UI) benefits are payable to employees who become unemployed through no fault of their own, are able and available to work, are actively seeking work, and have earned sufficient wages in the "base period".

The base period of a claim is a 12-month period. Each base period has four quarters (each quarter is three months). The base period is established when the claim is filed.

There are two types of base periods: the standard base period and, effective April 1, 2012, an alternate base period. When there are not enough wages in the standard base period to establish a valid UI claim, wages in the alternate base period may be used to establish a claim.

Standard Base Period. The **standard base period** is the FIRST FOUR of the last five completed calendar quarters prior to the beginning date of the claim.

If the claim begins in:	The Base Period is:
January, February, March	October 1 through September 30
April, May, June	January 1 through December 31
July, August, September	April 1 through March 31
October, November, December	July 1 through June 30

Alternate Base Period (Effective April 2012). The **alternate base period** is the LAST FOUR completed calendar quarters prior to the beginning date of the claim.

If the claim begins in:	The Base Period is:
January, February, March	January 1 through December 31
April, May, June	April 1 through March 31
July, August, September	July 1 through June 30
October, November, December	October 1 through September 30

An employee who leaves a job voluntarily may also claim UI benefits if the EDD determines that he or she had good cause (e.g., the working conditions were dangerous) for leaving work.

The employer's reserve account is credited with the UI contributions and, in most cases, charged with benefits paid to former employees. An employer who receives a notice of claims made by former employees may file a protest with the EDD if he or she believes that the employee is not entitled to the benefits claimed.

The weekly benefit amount is based on the quarter within the base period in which the employee's wages were the highest. Currently, benefit amounts range from $40 to a maximum of $450 per week. The employee may draw up to 26 weeks of regular UI benefits during a one-year period.

However, the EDD can extend the benefit period during periods of severe unemployment based on criteria specified in law. For example, when at least 6% of California's work force that is covered by UI becomes unemployed, up to 13 additional weeks of UI benefits are available to those who have exhausted their regular UI benefits.

Responsibility for funding the additional UI payments is shared equally between the state UI Fund and the federal government.

5. FEDERAL TAXATION

The Federal Government imposes the Federal Unemployment Tax Act (FUTA) on employers equal to 6% of the first $7,000 in wages they pay each qualifying employee. However, the federal government gives employers in states with approved unemployment insurance programs a credit of 5.4% against the federal tax. Thus, California employers are subject to a net federal tax of 0.6%. Because the state has been borrowing from the federal government to pay UI benefits for more than two straight years, in calendar year (CY) 2013, the credit was reduced to 4.5% resulting in a net federal tax of 1.5%; in CY 2014, the credit was reduced to 4.2% resulting in a net federal tax of 1.8%; in CY 2015, the credit was reduced to 3.9% resulting in a net federal tax of 2.1%. The additional FUTA revenue will be used to help repay the state's federal loan. Additional credit reductions will continue every year until such time as employers are paying the full 6.0% tax or the state's UI funding structure is modified to regain solvency in the UI Trust Fund.

6. REVENUE

Unemployment Insurance contribution revenues totaled $5.61 billion in FY 2012-13, $5.74 billion in FY 2013-2014, and $5.84 billion in FY 2014-2015.

7. ADMINISTRATION

Any employer who pays in excess of $100 in total wages during any calendar quarter is required to register with EDD. Employers are required to make quarterly UI payments on the last day of the month following the close of each calendar quarter. Quarterly returns in which employers must reconcile their quarterly payments with the amounts of tax actually due for the quarter must be filed by the last calendar day of the month following the end of the quarter. Penalties and interest are imposed on delinquent amounts.

8. CODE

California Unemployment Insurance Code Sections 100-2129

CHAPTER 3J
UNEMPLOYMENT INSURANCE

CHAPTER 3K

STATE DISABILITY INSURANCE

HIGHLIGHTS

• Purpose	Funds payments for employees who are unable to work due to pregnancy or non-occupational injury or illness. Funds payments for employees who need to take time off work to care for a seriously ill child, spouse, parent, or domestic partner, or to bond with a new child. Effective July 1, 2014, Paid Family Leave (PFL) eligibility expanded to include a seriously ill grandparent, grandchild, sibling, or parent-in-law.
• Taxable Wage Base	In 2014, first \$101,636 of each employee's annual wages. In 2015, first \$104,378 of each employee's annual wages. In 2016, first \$106,742 of each employee's annual wages.
• Withholding Rate	The rate remained at 1.0% in 2013 and 2014. The rate changed to 0.9% for 2015 and 2016.
• Revenue	2012-13 \$5.37 billion* 2013-14 \$5.68 billion* 2014-15 \$5.70 billion*
• Disbursements	2012-13 \$5.12 billion* 2013-14 \$5.32 billion* 2014-15 \$5.63 billion*
• Administration	Employment Development Department (EDD)

*Source: EDD

1. TAX OVERVIEW

The State Disability Insurance (SDI) program is a worker funded program administered by California's EDD. The program provides Disability Insurance (DI) and Paid Family

Leave (PFL) benefits to eligible California workers experiencing a loss of wages for non-work-related disabilities. The SDI contribution is withheld from employees of establishments that employ one or more persons and have paid more than \$100 in wages in a calendar quarter. The withholding of SDI is performed through mandatory payroll deductions. Revenues are deposited in the Unemployment Compensation Disability Fund. There is no comparable federal tax.

Disability insurance provides partial compensation for wages lost due to non-work-related illnesses, and injuries or pregnancy. The PFL insurance extends partial wage disability compensation to cover individuals who take time off of work to care for a seriously ill child, spouse, parent, or domestic partner, or to bond with a new child, or a child in connection with adoption or foster care placement. Effective July 1, 2014, PFL eligibility expanded to include a seriously ill grandparent, grandchild, sibling, or parent-in-law. The SDI program covers approximately 16.4 million California workers.

2. CONTRIBUTION RATE

The SDI rate is adjusted annually, effective January 1, based on the balance in the Unemployment Compensation Disability Fund. The taxable wage limit is set by statute and changes when the maximum weekly benefit changes. For 2015, the contribution rate was 0.9% on the first \$104,378 of wages earned by each employee. Recent changes in the contribution rate and taxable wage limit are as follows:

- For 2014, the maximum wage limit was \$101,636 and the contribution rate was 1.0%.
- For 2015, the maximum wage limit is \$104,378 and the contribution rate is 0.9%.
- For 2016, the maximum wage limit is \$106,742 and the contribution rate is 0.9%.

3. EXCLUSIONS

Certain groups of employees are excluded from paying (and therefore receiving) SDI. They are as follows:

- Some public agency employees;
- Public school employees;
- Federal government employees;

- Self-employed individuals or employers;
- Employees of churches and certain other religious organizations;
- Individuals in certain types of family employment (e.g., children employed by their parents, spouses employed by their spouse, son, or daughter);
- Individuals who file religious exemption certificates stating that they rely upon prayer in the practice of religious healing; and,
- Certain domestic workers who receive less than $750 in cash wages during a calendar quarter.

Although excluded from the requirement to pay SDI contributions, public school and public agency employees may elect coverage as an entire entity, by bargaining unit, or for management and confidential employees. Individuals in family employment may also elect coverage. The contribution rate for these employees is the same as for non-excluded employees.

Self-employed individuals may also elect coverage, but the tax rate for self-employed individuals may be different than for non-excluded employees. The self-employed tax rate is based on the net profit of the business that elects the coverage during the year prior to election.

4. BENEFITS

Benefits for DI and PFL vary depending on the employee's wages. The DI benefits for 2014 ranged from $50 to $1,075 per week. The maximum weekly benefit amount was $1,104 in 2015 and increased to $1,129 for 2016. The total SDI benefits paid to each employee equal 52 times that employee's weekly benefit; however, a claimant's benefits cannot exceed 100% of the wages paid to that claimant during his or her qualifying base period. The total PFL benefits paid to each employee cannot exceed six times that employee's weekly amount within a 12-month period. The "base period" consists of the first four of the last five or six completed calendar quarters, depending upon the month in which the claim for benefits is filed, as shown below:

MONTH CLAIM IS FILED	BASE PERIOD
January, February, or March	October 1 through September 30
April, May, or June	January 1 through December 31
July, August, or September	April 1 through March 31
October, November, or December	July 1 through June 30

5. REVENUE

Revenues from the SDI contributions are held in the Unemployment Compensation Disability Fund, a special fund in the State Treasury. Revenues are maintained separately from the UI contribution revenues collected from employers. The Fund collected $5.37 billion in Fiscal Year (FY) 2012-13, $5.68 billion in FY 2013-14, and $5.70 billion in FY 2014-15.

Disability benefit payments totaled $5.12 billion in FY 2012-13, $5.32 billion in FY 2013-14, and $5.63 billion in FY 2014-15.

6. REFUNDS

An employee who works for multiple employers during a given year and cumulatively earns wages in excess of the taxable wage limit may file for a refund of the excess tax paid when filing his or her California personal income tax return.

7. VOLUNTARY PLANS

An employer, with majority consent of his or her employees, may substitute a voluntary plan for the SDI plan. The voluntary plan must provide equal or greater benefits than the state plan, including both DI and PFL benefits, and must be approved by the EDD.

The SDI contributions withheld by a voluntary plan (which are optional on the part of the employer and cannot exceed the state plan rate) are not remitted to the EDD. Instead, in the voluntary plan, the employer retains these moneys in trust to pay benefits and administrative costs of the plan. As of December 2015, there were approximately 2,537 voluntary plans, which covered almost 580,438 workers (out of a total of approximately 17.6 million workers in California). All voluntary plans are self-insured.

8. ADMINISTRATION

Generally, most employers who pay in excess of $100 in total wages during any calendar quarter are required to register with the EDD. Employers are required to file quarterly returns with the EDD in which they remit the SDI contributions they withhold from their employees, as well as reconcile the amounts withheld during the quarter with amounts actually due. Generally, the SDI withholding must be remitted by employers to the EDD at the same time as other required employee withholding, such as state personal income taxes.

9. CODE

California Unemployment Insurance Code Sections 2601-3306

CHAPTER 4

LOCAL PROPERTY TAX

HIGHLIGHTS

• Tax Base	Assessed value of real property (land, improvements, and fixtures) and tangible personal property (equipment, machinery, office furniture, etc.).
• Tax Rate	Maximum 1% countywide rate on assessed value of property, proceeds of which are distributed to all local agencies within the county pursuant to statutory formula. Individual agencies may levy rates above the 1% maximum to service voter approved debt.
• Revenue	2013-14 (Actual) $52.0 billion* 2014-15 (Actual) $55.0 billion* 2015-16 (Estimate) $58.0 billion*
• Administration	County Assessors and Board of Equalization (BOE)

Includes basic 1% rate; excludes reimbursement by the state to local governments.

*Source: BOE

1. TAX OVERVIEW

The **property tax** is the major general revenue source for local governments in California. It is imposed on the property owners and is based on the value of the property (thus it is often referred to as an ad valorem tax). However, since the adoption of Proposition 13 in 1978, real property has generally been taxed based on its value at the time of its acquisition, with increases for inflation limited to 2% per year. Liability is for a fiscal year (July 1 to June 30) or a portion thereof. Payments are made in one or two annual installments.

The property tax applies to all classes of property -- residential, commercial, industrial, agricultural, open space, timberland, and vacant land. Special rules apply to some kinds of property, such as certain agricultural land and timberland. Public land is generally exempt. Property taxes are collected by the county and distributed to local agencies within the county based on a statutory formula.

2. FOUNDATIONS OF PROPERTY TAX LAW

Much of the law pertaining to taxation of property is prescribed in the California Constitution -- in Article XIII, which was part of the original California Constitution, and in Article XIIIA, which was adopted by the voters of the state as Proposition 13 in 1978.

Most fundamental modifications to property tax law must be made by constitutional amendment approved by the voters of California. The Legislature is authorized to implement and modify various aspects of property tax law and is authorized by the Constitution to exempt personal property by a two-thirds vote.

Judicial decisions play an important part in the evolution of property tax law, as lawsuits are brought to resolve disputes over the meaning of various constitutional and statutory provisions. The U.S. Supreme Court upheld the constitutionality of Proposition 13 in 1992, finding that it does not violate the U.S. Constitution's equal protection or right to travel provisions.

3. WHO MUST PAY THE PROPERTY TAX

In most cases, the owner of the property is assessed for the property tax. In cases where the owner leases the property to someone else, the assessor may assess either the owner, the lessee, or may make a joint assessment on both the lessor and lessees. However, the owner is ultimately liable for payment of the tax.

In one special circumstance, a non-owner of property is assessed for the property tax. This occurs when an individual or business has the right to use tax-exempt land. The most common example is the case of government-owned property that is leased to a private party. The lessee holds what is called a "possessory interest" in the property, and is assessed for property taxes on the property. Examples of taxpayers who have possessory interests are owners of cabins on national forest land, ranchers with grazing rights on federal lands, aircraft operators using government-owned airports, cable television companies laying cable in publicly owned streets, and shipping companies renting berths in county-owned ports.

4. TYPES OF PROPERTY SUBJECT TO TAX

The Property Tax Base. The property tax base is composed of two major categories of property: Real property and tangible personal property.

Real property includes land, permanently attached improvements (such as buildings, swimming pools, and other structures), fixtures (items that are permanently affixed to structures, such as air conditioning units, lighting fixtures, permanently installed machinery, etc.), and mineral rights.

Tangible personal property includes movable property such as equipment, portable machinery, office furniture, vessels, and aircraft. Some of the major types of property that are not part of the property tax base include property owned by government or certain charitable organizations, intangible property (e.g., stocks and bonds), household personal property, automobiles and trucks, and business inventories. These are described more fully in the exemption section below (Section 12).

State-Assessed Versus Locally-Assessed Property. Assessment of property involves placing a value on that property for purposes of property taxation. All real and personal property is classified as either locally-assessed property or state-assessed property, depending on which level of government is responsible for assessment.

The assessor of each county is responsible for valuation of locally-assessed property. Most property is locally-assessed.

The BOE is responsible for valuation of state-assessed properties. State-assessed properties include utility and railroad property, private railroad cars, inter-county pipelines, flumes, canals, ditches, and aqueducts. Generally, state-assessed properties operate as an integrated unit and often cross county boundaries. These properties are sometimes called "unitary" properties.

Unitary property is assessed as an operating unit because the separate parcels in each county have little independent value. For example, it makes little sense to value one section of railroad track; its value depends on being a part of an integrated system. Therefore, the BOE values all of the state-assessed property holdings as a single unit and allocates the value among the counties.

Secured and Unsecured Property Tax Assessment Rolls. All property is accounted for on property tax assessment rolls maintained by each county assessor. The property tax assessment rolls contain an entry for each parcel of land, including the parcel number, owner's name, and assessed value. This information may also be stored electronically, rather than on a physical document. There are two kinds of property tax rolls. Property is entered on one or the other, based on how certain the county is of being able to collect taxes if they become delinquent, as described below.

Most property is on the secured roll. The secured roll consists of property for which the payment of tax is "secured" by a lien on real property owned by the taxpayer in that county. This means that the county could seize and sell the real property to satisfy the liability if the taxes become delinquent.

Generally, all real property for which the owner or possessor holds title is on the secured roll. Personal property can also appear on the secured roll if its owner also owns real property in the same county that can secure the personal property. All state-assessed property is also entered on the local secured roll. This portion of the secured assessment roll is sometimes referred to as the "Board roll".

The unsecured roll consists of personal property of taxpayers that do not own real property in the county on which a lien can be placed to secure eventual payment if the property tax becomes delinquent.

Thus, the unsecured roll consists primarily of personal property and machinery and equipment owned by businesses that lease, rather than own, the real property they occupy. Generally, possessory interests in real property will be placed on the unsecured roll if the holder of the interest does not own other real property in the same county on which a lien can be imposed. Airplanes and boats are also on the unsecured roll.

The main difference in the treatment of property on these two rolls is that secured property taxes are payable in two installments, no later than December 10 and April 10, while unsecured property taxes are payable in one installment due no later than August 31. This earlier due date for unsecured roll tax payments is intended to assure collection of taxes on property that is more mobile.

5. TAX RATE

The provisions of Proposition 13, California Constitution, Article XIIIA, limit property tax rates. Local property tax rates are composed of two parts:

- The basic countywide rate is limited to a maximum of 1%. Local agencies are permitted to adopt lower rates that can result in a countywide rate of less than 1%. The proceeds of the basic countywide 1% tax rate are general revenues allocated to local agencies within the county by statutory formula; and,

- Local agencies within each county are permitted to levy additional tax rates for debt. The vote requirements were simple majority prior to Proposition 13 and generally two-thirds after approval by voters in June of 1978. However, pursuant to Proposition 39 passed by the voters in November 2000, bonded indebtedness incurred by a school district, community college district, or county office of education for the construction, reconstruction, rehabilitation, or replacement of school facilities may be approved by 55% vote after November 7, 2000. The proceeds of each additional debt rate are allocated to the local agency that received voter approval to incur the debt, and are earmarked for payment of principal and interest on that debt.

The California Supreme Court ruled that additional tax rates imposed to fund employee pension systems approved by the voters prior to July 1, 1978, are valid debt rates under Proposition 13 [*Carman v. Alvord* (1982)]. The Legislature codified permissible purposes for which additional rates may be levied as qualified indebtedness and placed limits on increases in additional rates for certain types of pension system debt.

As a result of the levy of additional rates for voter-approved debt, tax rates may vary from area to area within any county, depending on the number and amount of debt rates levied by the local agencies. For example, a resident of one area may pay a 1.1% rate (composed of the 1% countywide rate, a 0.05% rate for school district debt and a 0.05% rate for park district debt), while a resident of another area of the county may pay a 1.2% rate (composed of the 1% countywide rate, a 0.10% rate for a different school district's debt and a 0.10% rate for a water district debt).

The California Constitution provides that the tax rate applicable to the unsecured roll is the prior year's secured roll tax rate. This is because the unsecured roll bills are sent out early in the fiscal year, often before local agencies set the tax rate for the current year. Although counties have the authority under Proposition 13 to set the basic countywide tax rate below the maximum rate of 1%, in most cases the basic tax rate generally does not change. However, the additional debt rates change annually, based on revenue needs to meet principal and interest obligations. Normally the variation in debt rates from year to year is not great, so the impact on an individual tax bill is not pronounced.

6. PROPERTY VALUATION UNDER PROPOSITION 13

Valuation of property is a key factor in property taxation, since the tax rate is applied to the taxable value of the property (formally referred to as the 'assessed value' or 'full value') to determine taxes due. For example, a property with an assessed value of $115,000 in an area where the total rate is 1.1% will have a property tax liability of $1,265, computed as follows:

$115,000 assessed value x 0.011 tax rate = $1,265 tax

Proposition 13 sets forth rules controlling the valuation of property for property tax purposes. The Supreme Court has ruled that these provisions apply to the valuation of locally-assessed real property only, and does not apply to state-assessed property.

Value Standards: Fair Market Value and Acquisition Value. Under pre-Proposition 13 law, locally-assessed real property was assessed each year using a current market standard. Fair market value, which was determined annually by the county assessor, is the value for which the property would sell if offered on the open market.

Proposition 13 subjected locally-assessed real property to a new set of valuation rules, often referred to as the "acquisition value" standard. This system has several components as provided by Proposition 13 and implemented by statute, as described below:

- For purposes of moving from the old to the new system, Proposition 13 first required property values to be rolled back to the 1975-76 fiscal year (FY) fair market value level for the FY 1978-79. Properties that have not sold or undergone new construction since FY 1975-76 have a FY 1975-76 "base year value".

- A property's base year value is adjusted upwards each assessment year to reflect inflation as measured by the California Consumer Price Index, but not in excess of 2% annually. This process continues as long as the property is not subject to an ownership change or new construction. This value is known as the "factored base year value". This system is sometimes described as an "acquisition value" based system. The term "acquisition value" refers to basing future assessed values on the value of the property at the time it was originally acquired. The constitutional validity of this feature of Proposition 13, which often results in different tax burdens for similar properties, has been upheld by the U.S. Supreme Court.

- When a property is sold, transferred, or subjected to any other change in ownership, the property is reassessed to current fair market value as of the date ownership changed. Newly constructed property is also assessed at current fair market value as of the date of completion.

- The fair market value assessment at the time of new construction or change in ownership becomes the property's new "base year value", which is thereafter adjusted upwards by no more than 2% annually, until such time as another change in ownership occurs.

- If new construction occurs on only a portion of a property (for example, a room addition), the newly constructed portion is given a new base year value, and the pre-existing portion retains its old factored base year value. A property can have multiple base year values due to new construction until the whole property changes ownership, when it will be assigned a new base year value based on its total fair market value at the time of sale.

- If on any lien date (January 1) the market value of a property declines below its (base year value) factored base year value, it may be reassessed to reflect the lower value for that upcoming fiscal year. However, if the market value of the property recovers each following lien date after it is reassessed downward, the county assessor may increase the value of the property to its current market value for the next fiscal year. However, any property that is reassessed in this way may not be given a value that is greater than its factored base year value.

Three types of locally assessed real property are not subject to this valuation system. These are agricultural and open space land, timberland, and historical properties. Special valuation rules, described in Section 10, Preferential Assessment of Certain Properties, cover these properties.

Purchase Price Assumed to Represent Fair Market Value. Current law provides that when establishing value upon a change in ownership, the assessor should trust the purchase price represents fair market value, unless there is evidence that the property would not have transferred for that price in an open market transaction. If the assessor believes the property's fair market value is different from the purchase price and the property owner appeals the valuation, the assessor must demonstrate why he or she used another value, generally by presenting comparable sales. The requirement to use the actual purchase price paid as the fair market value is sometimes referred to as "Rule 2", because the concept was originally adopted as a rule by the BOE. It has since been codified in statute.

Exemptions from Reassessment upon Change in Ownership or New Construction. Constitutional amendments adopted after Proposition 13 and statutory interpretations have permitted several exclusions from fair market value reassessment at the time of change in ownership or new construction. Seven of the most significant include:

- Intrafamily Transfers. Under Proposition 58 of 1986, transfers of property between spouses are not considered changes in ownership. This proposition codified previously enacted legislation. In addition, Proposition 58 provided that transfers of principal residences plus transfers of up to $1 million of other property between parents and children are not subject to reassessment upon change in ownership. Proposition 194 of 1996 extended the provisions of Proposition 58 to transfers between grandparents and grandchildren if the parents of those grandchildren are deceased.

- Replacement Residences of Senior Citizens. Under Proposition 60 of 1986, senior citizens may transfer the factored base year value of their original residence to a replacement principal residence, if the replacement is of equal or lesser value and located in the same county. Under Proposition 90 of 1988, the same relief is available for moves between counties if the county board of supervisors where the replacement home is located has adopted an ordinance permitting the transfer of value.

- Replacement Residences of Disabled Persons. Under Proposition 110 of 1990, severely and permanently disabled persons meeting specified requirements may transfer the base year value of an original dwelling to a replacement dwelling of equal or lesser value without triggering reassessment.

- Seismic Safety Improvements. Under Proposition 13 of 2010, specified seismic retrofitting and earthquake hazard mitigation technologies applied to existing buildings are not subject to reassessment as new construction.

- Environmental Contaminations. Under Proposition 1 of 1998, property acquired or reconstructed as a replacement for property destroyed as a result of environmental contamination cleanup activities may be excluded from fair market value reassessment.

- Transfers by and between Registered Domestic Partners (RDPs). Under SB 565 (Migden), Chapter 416, Statutes of 2005, transfers of real property between RDPs or former RDPs are excluded from changes of ownership. In addition, transfers to trusts at death and in connection with property settlement upon the dissolution of a RDP are not considered changes of ownership that subject the real property to reassessment.

- Homes – Cotenants after a Death. Under AB 1700 (Butler), Chapter 781, Statutes of 2011, a transfer of a co-tenancy interest, as defined, in real property from one co-tenant to the other that takes effect upon the death of the transferor co-tenant is excluded from reassessment as a "change in ownership" if the real property constitutes the principal residence of both cotenants.

Other allowable exclusions from reassessment include:

- Property reconstructed after a disaster;
- Property acquired to replace comparable property destroyed in a disaster;
- Property acquired to replace property taken by eminent domain;
- Additions of solar energy systems and fire sprinkler systems; and,
- Modifications to make an existing residence more accessible to a severely and permanently disabled person.

The Appendix to this chapter lists all of the amendments to California Constitution, Article XIIIA, adopted by the voters since enactment of Proposition 13 in 1978.

The Legislature has also clarified application of the provisions related to change in ownership and new construction, providing that fair market value reassessments are not required for specified transactions, including:

- Transfer of the bare legal title (e.g., when a homeowner pays off the mortgage held by a bank or other financing entity);
- Creations of leases with a term of the creation of less than 35 years (a lease with a term of more than 35 years is considered a 'change in ownership');
- Creations of joint tenancies, when the prior owner is one of the joint tenants in the new joint tenancy;
- Transfers of property between commonly-owned legal entities where the percentage of ownership shares does not change, and transfers of property between individuals and legal entities where the percentage of ownership does not change;

- Transfers of ownership interests in legal entities, and transfers of corporate stock so long as no one individual, corporation, partnership or other legal entity acquires more than 50% of the stock;

- Transfers of properties to revocable trusts;

- Alterations or improvements to property that are not considered major rehabilitations; and

- Sales of mobilehome parks and floating home marinas to the tenants of the parks, either as a whole or transfer of individual rental spaces.

Assessment of Property that Is Damaged or Declines in Value. The rules that apply to cases of damage or general decline in value that are not associated with disasters declared by the Governor are as follows:

- Ordinary Circumstances When Value Declines. If property experiences a decline in value for any reason other than a misfortune or calamity, such as a general drop in real estate values, special rules apply regarding that property's assessment value. To the extent that its fair market value is less than its value on the property tax roll, the assessor will reassess the property downward on the next January 1 lien date to reflect its value in its present condition.

  However, if the property experiences a decline in value but the market value still is greater than the adjusted base year value on the roll, the factored base year value cannot be reduced.

  If the market value later goes up or repairs are made that cause the value to increase, the value on the tax roll will revert at the next lien date to the factored base year value that would have applied if the decline had not occurred.

  If restoration construction on the property is significant enough to be classified under Proposition 13 rules as "new construction", the newly constructed portion will be reassessed to fair market value.

- Damage Due to "Misfortune or Calamity". If property has been damaged or destroyed by a misfortune or calamity, the owner may request that the property be reassessed downward immediately to reflect its current value in the damaged condition. This downward reassessment procedure is available only in counties that have adopted authorizing ordinances. It is not necessary for the damage to have occurred as a result of a disaster declared by the Governor. The downward reassessment is accomplished by reducing the factored base year value by the same proportion by which the full market value of the property declined due to the damage.

The downward assessment results in a reduction of property taxes for the assessment year, prorated to reflect the number of months remaining in the year after the damage occurred. The reduced taxes are refunded to the property owner.

In addition, property owners may apply to defer payment of the next property tax installment due following the disaster. The deferral is permitted until the corrected property tax bill, reflecting the reduced value, is issued.

When the damaged property is restored, it will be reassessed upward. That value will not exceed its prior factored base year value, even though the fair market value may be higher. As in the above situation, if restoration of the property is significant enough to be classified under Proposition 13 rules as "new construction", the newly constructed portion will be reassessed to fair market value.

Two additional relief provisions also are available to owners of property damaged or destroyed by a disaster declared by the Governor. These are described below:

- Exemption from New Construction Reassessment. If real property is substantially damaged or destroyed by a misfortune or calamity, any timely new construction that makes the property substantially equivalent to its state prior to damage or destruction will not result in a reassessment of the new construction. That is, the property can retain its tax value even though new construction has occurred and the new fair market value exceeds the value on the property tax roll. Any portion of the new construction that goes beyond "substantial equivalence" to the state of the property prior to the disaster is reassessed to full market value.

- Transfer of Old Tax Value upon Relocation. If property is substantially damaged or destroyed by a disaster as declared by the Governor, the base year value may be transferred if the owner constructs or acquires comparable property within the same county within five years after the disaster. The base year value transfer is available to comparable property located in another county only if the county in which the replacement property is located has adopted an ordinance permitting the transfer of value and the time frame is limited to three years. This opportunity to retain the assessed value of the original property is available only if the property sustains physical damage amounting to more than 50% of its full cash value immediately before the disaster. The replacement property must be comparable to the damaged property in size, utility and function. If the market value of the replacement property is more than 120% of the original property, the amount in excess of 120% is added to the transferred factored base year value.

Assessment of Oil and Gas Property. Oil, gas, geothermal or other mineral rights are assessed under Proposition 13 rules. New mineral reserves are added to the roll at their fair market value at the time they are proven to be economic. Thereafter, the value is increased annually by no more than 2% and is adjusted downward in proportion to the depletion of the mineral resource.

7. SUPPLEMENTAL ASSESSMENT ROLL FOR CHANGES IN OWNERSHIP AND NEW CONSTRUCTION

During the first five years after implementation of Proposition 13, some property owners were able to temporarily escape the added tax liability arising from changes in ownership or new construction. This occurred as a result of the continuation of pre-Proposition 13 rules establishing tax liability for a fiscal year (July 1 to June 30) based on the value of property as of the preceding lien date.

Prior to July 1, 1983, the law provided that when property was reassessed due to change in ownership or new construction, the additional value was not subject to tax until the fiscal year beginning after the next lien date, which was at that time March 1. Thus, new value could escape taxation for a period of from 4 to 16 months. For example:

- An ownership change in February 1980 was not reflected in higher taxes until the 1980-81 fiscal year, beginning in July 1980, 4 months later.

- An ownership change on March 2, 1980 was not reflected in higher taxes until the 1981-82 fiscal year, beginning in July 1981, 16 months later.

- An ownership change in October 1980 was not reflected in higher taxes until the 1981-82 fiscal year, beginning in July 1981, 10 months later.

However, under legislation that took effect on July 1, 1983, property reassessed upon change of ownership or new construction is now subject to tax immediately, by being placed on a "supplemental assessment roll". The supplemental assessment roll applies only to locally assessed real property subject to Proposition 13 assessment rules and manufactured homes.

The supplemental roll works as follows:

- The added value created by the new construction or ownership change is placed on a separate property tax roll (the supplemental roll) on the date the ownership change occurs or the new construction is complete.

- A tax bill is issued based only on the added value and is prorated for the remaining portion of the fiscal year.

- In the next fiscal year, the entire new assessed value of the property is placed on the regular roll, and there is no supplemental roll liability for that property.

For example, consider a home assessed at $100,000 in an area where the tax rate is 1.1%. The home is on the regular roll, and the tax for the entire year is $1,100. On December 31 a room addition is completed that has a fair market value of $30,000. The supplemental roll tax bill for that year is $165, computed as follows:

$30,000 x 0.011 tax rate = $330 tax x 0.50 (prorating for half of year) = $165

The $165 supplemental tax bill is paid in addition to the $1,100 regular roll bill. The next year, the original value is increased by 2% and combined with the new value of the room addition, and a single regular roll tax bill is issued of $1,452:

$100,000 x 1.02 = $102,000 + $30,000 = $132,000 x 0.011 tax rate = $1,452 tax

Pursuant to AB 459 (Oropeza), Chapter 392, Statutes of 2005, sellers of residential real property are required to provide to the purchaser a notice about supplemental property tax assessments.

8. VALUATION OF OTHER PROPERTY

Annual Reassessment to Fair Market Value. Property other than locally-assessed real property is subject to the valuation rules that were in effect for all property prior to Proposition 13. The pre-Proposition 13 rules now apply only to locally-assessed personal property and state-assessed property. These two classes of property are assessed to current fair market value each year, as of the lien date. For locally-assessed personal property, the county assessor has the responsibility for determining fair market value. For state-assessed property, the BOE determines fair market value. In both cases, the tax rate is the same as for all other property: The basic 1% rate, plus any additional rates for debt.

If damage or other factors cause fair market value to decline for these properties, the decline will be reflected in the next annual reassessment. In addition, owners of locally-assessed personal property may apply for immediate downward reappraisal during the tax year after a "misfortune or calamity", if local county ordinances permit. This is the same procedure described in Section 6 above for locally-assessed real property.

Determination of Fair Market Value. Fair market value is defined as the price the property would bring at a sale in the open market by a willing buyer and willing seller, neither of whom is under any compulsion to buy or to sell, and with full knowledge of the uses to which the property can be put.

Determination of fair market value is a question of judgment, and the law recognizes that there is no single acceptable appraisal method that assessors should employ to determine fair market value. Some of the most commonly used methods include using the purchase price, looking at sales of comparable properties, capitalizing the income stream (rent) produced by the property, and determining the cost to replace the property.

Recall that for purposes of establishing the fair market value of a property that has been purchased, current law requires that the purchase price be presumed to be the fair market value, unless there is evidence the property would not have sold for that in an open market transaction.

As pointed out earlier in this chapter, the property tax applies only to tangible property. Intangible property is not taxable. Examples of intangibles that are not subject to the property tax include general franchises, patents, and goodwill. However, the courts have recognized that in some instances the presence of intangibles contributes to or enhances the value of real property, in which case they may be reflected in the assessment of property for tax purposes.

Impact of the "4-R" Act on Railroad Valuation. Federal legislation enacted in 1976, the Railroad Revitalization and Regulatory Reform Act (the "4-R Act"), has affected the valuation of state assessed railroad property. The 4-R Act prohibits states from taxing railroad property more highly than other commercial and industrial property in the state. Since California assesses most commercial and industrial property under the "acquisition value" rules of Proposition 13, and railroad property is reassessed to fair market value annually as state assessed property, California must modify its assessment of railroad property to comply with the requirements of the 4-R Act.

BOE has concluded that the effective assessment level of state-assessed railroad property in California is 74.11% of fair market value for the FY 2015-16.

9. LIEN DATE AND "ESCAPED" ASSESSMENTS

All locally assessed taxable property is assessed annually as of 12:01 a.m. on January 1. This is called the lien date, because on that date the taxes due become a lien against the property until paid. The lien date was changed from March 1 to January 1 commencing January 1, 1997.

All state-assessed property is assessed each year as of 12:01 a.m. on January 1.

An escape assessment is a retroactive, corrective assessment. This assessment rectifies an omission or error that caused taxable property to be under-assessed, or not assessed at all. In most cases, once such an omission or error occurs, the property escapes proper assessment each year thereafter until the underassessment is discovered and corrected. Upon discovery that a property escaped assessment, the assessor is required to appropriately value the property as of the valuation date, record the appropriate value on the roll being prepared, and process any necessary corrections to the current roll. In addition, the assessor is required to process escape assessments for earlier years for which the time to make assessments still is open.

In general, the time period during which assessments may be made remains open for four years beginning on July 1 of each assessment year. To determine the open period for escape assessments, the period is counted back in time from the assessment year of discovery and correction.

For example, a new barn was completed in April 1997 but was not assessed until the assessor discovered it in January 2002. Upon discovery, the assessor should:

- Record (enroll) the appropriate value on the roll being prepared (FY 2002-03). The role for this assessment year closes on July 1, 2002, so this correction would not be an "escape assessment".

- Correct the current roll (FY 2001-02); this is year one of the limitations period.

- Process escape assessments for all prior years within the statute of limitations (FYs 2000-01, 1999-2000, and 1998-1999 represent years two, three, and four of the limitations period).

As revealed by this example, the assessor is not always able to make a corrective assessment for every year that the property escaped assessment.

10. PREFERENTIAL ASSESSMENT OF CERTAIN PROPERTIES

California Constitution, Article XIII, Sections 3(j) and 8, provides special assessment rules for three categories of property in order to preserve them in their current form and reduce pressure for development. The special assessment rules allow the property to be assessed at the lower of (a) fair market value, (b) the Proposition 13 assessment value, or (c) historical value. The categories of property covered by the special rule are:

- Open space land and agricultural land, the use of which is restricted under Land Conservation Act (Williamson Act) contracts. Examples of open space contracts include scenic highway corridors, wildlife habitats, saltponds, managed wetlands, submerged areas, and recreational areas. The state reimburses local governments for part of the revenue loss resulting from preferential assessments under the Williamson Act. (The Williamson Act is described more fully in Chapter 6G.)

- Timberland.

- Qualifying historical property.

11. TAXPAYER APPEALS OF PROPERTY VALUATION

Taxpayers who disagree with the values placed on locally assessed property by the county assessor may appeal to the county equalization body between July 2 and September 15 of the fiscal year for which the taxes are due. In some counties, the appeals date is extended to November 30.

Under current law, the elected county board of supervisors may sit as the county BOE or may create one or more assessment appeals boards (AABs) to provide that function. According to BOE, there are 19 counties in California in which the board of supervisors also sits as the county BOE. In the remaining 39 counties, AAB members are appointed by a majority vote of the board of supervisors. Each AAB member's term is three years long, and there is no limit on the number of terms an AAB member may serve. Individual terms are staggered to ensure that a board will not be comprised of members with no prior AAB experience.

Eligibility requirements for appointment to an AAB vary depending on the size of the county. In counties of less than 200,000 people, the board of supervisors may appoint any person who is believed to possess "competent knowledge of property appraisal and taxation". In all other counties, an appointee must have a minimum of five years' professional experience in California in one of the following roles: Certified public accountant or public accountant, licensed real estate broker, attorney, property appraiser accredited by a nationally recognized professional organization, or property appraiser certified by the California Office of Real Estate Appraisers or state BOE.

The roles and duties of the county equalization bodies have been litigated repeatedly. Among the courts' findings: County BOEs are quasi-judicial agencies that function as the fact-finding bodies designated by law to remedy excessive assessments. These boards have the duty to determine the value of locally assessed property and the fairness of the assessment. In discharging this duty, a board's determination regarding the merits of a valuation case are conclusive. Thus, the decision of a county BOE is equivalent to the determination of a trial court and may be reviewed only for arbitrariness, abuse of discretion, or failure to follow the standards prescribed by law.

Rulings of the county equalization body can be appealed to Superior Court, but any Superior Court asked to review a question of fact, which generally is a valuation decision, is limited to inquiry into whether the county board's findings are supported by substantial evidence (i.e., whether the findings are supported by some credible evidence in the administrative record). Thus, the Superior Court sits as an appellate tribunal that reviews the AAB record for reversible error, and taxpayers do not have a right to trial de novo. Over time, three types of reversible errors have been identified: (a) denial of procedural due process to a party by an AAB; (b) utilization of an unlawful appraisal methodology by an AAB; and (c) issuance of findings and/or decisions by an AAB that are not supported by substantial evidence.

Local assessees are provided greater appeal rights on refund actions arising from questions of law than actions arising from questions of fact. In general, questions of fact involve the circumstances surrounding a property's fair market value. Questions of law often involve the determination whether the transfer of a property meets the definition of a change in ownership. Other examples of issues eligible for trial de novo include: (a) whether a property qualifies for a specific property tax exemption; (b) whether a particular item is real or personal property; (c) whether a particular statute is constitutional; and (d) whether the proper method of valuation has been used.

Taxpayers who disagree with the values placed on state-assessed property by the BOE may appeal to the Board itself, with further appeal rights to the Superior Court. State assessees are provided trial de novo if they appeal to the Superior Court. Unlike the restrictions placed on courts asked to review questions of fact on locally-assessed real property, the court may make an independent determination of the fair market value of a state-assessed property.

12. PROPERTY TAX EXEMPTIONS

Various categories of property are partly or fully exempt from the property tax. The major exemptions are summarized below.

Property totally exempt from local property tax includes:

- Most government-owned property.
- Nonprofit religious, charitable, charitable education, and hospital property. This is generally known as the "welfare exemption".
- Household furnishings and personal effects.
- Business inventories, including livestock, held for sale.
- Growing crops. Also, orchards for the first four years after they were planted and vineyards for the first three years after planting.
- Low-value property (generating a tax of less than $100). The county board of supervisors must authorize this exemption before it is allowed for the county.
- Freight and passenger vessels over a certain size.
- Private railroad cars that are subject to the state private railroad car tax in lieu of the local property tax.

Property partially exempt from local property tax includes:

- The first $7,000 of full value of an owner-occupied principal residence. This is known as the Homeowners' Exemption. The state reimburses local governments for the loss of revenue attributable to this exemption. (Refer to Chapter 6E, Homeowners' Exemption, for a more detailed discussion.)

- The first $100,000 or $150,000 as adjusted for inflation of property owned by disabled veterans and their spouses, with the exempt amount depending on the annual income of the veteran. Beginning in 2006, the exemption amount is adjusted for inflation each year.

- Autos and trucks, which are subject to the vehicle license fee (VLF). Mobilehomes sold new prior to July 1, 1980 are also subject to the VLF in lieu of the property tax; mobilehomes installed after that date are placed on the local property roll and assessed as real or personal property, depending upon the method of attachment to land.

- Standing timber, which is subject to the Timber Yield Tax. Note, however, that the land underlying the timber remains subject to the property tax. Timber land is usually subject to preferential assessment.

- Racehorses are subject to a special annual Racehorse Tax. This tax is a fixed amount varying by type of racehorse and the age of the horse.

- Personal property of insurance companies is subject to the insurance gross premiums tax in lieu of all other taxes except real property taxes.

- Personal property of banks and financial institutions is subject to a Bank Tax rate in addition to the normal bank and corporation tax. The personal property of banks is not subject to personal property taxes.

- Business records, which are valued based on the value of the paper, rather than the value of the information contained.

13. PROPERTY TAX RELIEF PROGRAMS

The state pays for a variety of property tax relief programs through income tax credits, cash payments made directly to taxpayers, and subventions to local governments as reimbursement for the loss of revenues resulting from property tax exemptions and preferential assessments.

Table 8 illustrates the cost to the state of the major property tax relief programs for FY 2013-14 (the most recent FY for which actual expenditures are known). Most of these programs are described in more detail in Chapter 6, Special Features of the California Tax System.

In 2011, a county-optional senior citizens and disabled property tax deferral program was created to replace the suspended state program. [AB 1090 (Blumenfield), Chapter 369, Statutes of 2011.] In 2014, the state program was restored and applications may be filed beginning September 1, 2016. [AB 2231 (Gordon), Chapter 703, Statutes of 2014.]

TABLE 8

Estimated State Expenditures on Property Tax Relief Programs, 2014-15

Homeowners' Exemption (subvention to local governments)	$403.9 million
Senior Citizens, Blind & Disabled Homeowner and Renter Property Tax Assistance (direct cash payments to taxpayers)	$ -0- million
Senior Citizens and Disabled Property Tax Deferral (subvention to local governments)	$ 5.6 million
Williamson Act Open Space and Agricultural Land Contracts (subvention to local governments)	$ -0- million

*Source: 2016-17 Governor's Budget

14. ALLOCATION OF PROPERTY TAX REVENUES TO LOCAL AGENCIES

In 1979, after the passage of Proposition 13, the Legislature enacted a method of allocating the proceeds of the countywide 1% property tax rate to various local entities in each county. The legislation enacting this method was AB 8 of 1979, and the system came to be known as the AB 8 system.

In brief, the AB 8 system ensured that local entities would receive revenues equal to the amount they received in the prior year (the 'base') plus that entity's share of any growth in revenues deriving from assessed valuation in that jurisdiction (the 'increment'). Property tax proceeds from growth, whether due to new construction, changes in ownership, or the 2% inflation factor, accrue only to jurisdictions where the growth occurs.

AB 8 generally allowed local agencies to receive the same share of property tax revenues after Proposition 13 that they received prior to Proposition 13. However, AB 8 also shifted a portion of the property taxes received by schools to cities, counties, and special districts and the state assumed a greater share of education funding. This shift is known as the AB 8 shift or bailout. In effect, California subsidized local governments by passing money through school districts and inflating local governments' property tax revenues.

As part of the package of efforts closing the FYs 1992-93 and 1993-94 budget deficits, the AB 8 shift was partially reduced. Legislation reallocated property tax revenues from cities, counties, and special districts to schools. This shift was accomplished through an Education Revenue Augmentation Fund (ERAF) in each county.

In years following the ERAF property tax shifts, local agencies receive their new base amount plus their share of any growth within the jurisdiction during the past year.

15. ADMINISTRATION

The BOE is charged with developing standards for local assessment practices and also has responsibility for assessing certain utility properties, as described above.

Prior to the enactment of Proposition 13, the BOE had "equalization" powers. That is, the power to require a county to increase assessed values to bring them in line with state standards and assessed values elsewhere in the state. Since the enactment of Proposition 13, BOE no longer has that function. However, BOE is required by statute to monitor local assessment practices and assessed values and report on its findings. If, in its monitoring function, the Board determines that the level of assessment in any county is less than 95% of the assessment level required by law, the county can lose a portion of annual supplemental property tax roll revenues that are earmarked for county administrative costs.

Local county assessors value all property except the utility and railroad property, private railroad cars, inter-county pipelines, flumes, canals, ditches, and aqueducts assessed by the BOE. The county tax collector collects the property taxes, and the county auditor determines the appropriate allocation of revenues to local entities within each county.

Secured roll taxes are paid to the county tax collector in two installments, which are delinquent if not paid by December 10 and April 10 annually. Unsecured roll taxes are paid in one installment due no later than August 31 annually.

16. CODE

California Constitution, Article XIII and XIIIA

Revenue and Taxation Code Sections 1-6000 and Sections 11201-11273

Various sections in Education Code, Government Code, and other Codes.

CHAPTER 4
LOCAL PROPERTY TAX

APPENDIX

History of Proposition 13 and Subsequent Amendments

Statewide Ballot	Proposition Number	Summary of Change Adopted
June 1978	13	Enactment of Article XIIIA. Added Article XIIIA to State Constitution, limiting property tax rate, rolling assessments back to 1975-76 level, limiting increases in assessed value, providing for reassessment upon change in ownership or new construction, prohibiting imposition of new property or other kinds of taxes on real property, authorizing the imposition of local special taxes by 2/3 vote, and making other changes. Most provisions took effect for 1978-79 fiscal year.
November 1978	8	Disasters and Declines in Value. Amended Section 2 of Article XIIIA, providing that real property reconstructed after a disaster will not be considered new construction if the new market value is comparable to the market value prior to the disaster, and authorizing reduction in assessment of a property in order to reflect substantial damages, destruction or other factors causing a decline in value.
November 1980	7	Solar Energy Systems. Amended Section 2 of Article XIIIA, authorizing the Legislature to provide that the construction or addition of any active solar energy system will not be considered new construction.
June 1982	3	Eminent Domain and Inverse Condemnation Amended Section 2 of Article XIIIA, providing that a change in ownership will not include acquisition of property as a replacement for comparable property from which the owner was displaced by eminent domain, acquisition by a public entity, or inverse condemnation. Applied to property acquired after March 1, 1975, for assessments made after June 8, 1982.

APPENDIX (Continued)

History of Proposition 13 and Subsequent Amendments

Statewide Ballot	Proposition Number	Summary of Change Adopted
June 1984	23	Seismic Safety Reconstruction. Amended Section 2 of Article XIIIA, providing that reconstruction or improvement to property constructed of unreinforced masonry bearing wall construction in compliance with local seismic safety ordinances will not be considered new construction during the first 15 years after the reconstruction.
November 1984	31	Fire Safety Systems. Amended Section 2 of Article XIIIA, authorizing the Legislature to provide that the construction or installation of a fire sprinkler, extinguishing, detection or related system will not be considered new construction. Applies to systems constructed or installed after November 6, 1984.
November 1984	34	Historic Structures Rehabilitation. Amended Section 2 of Article XIIIA, providing that the addition to, or alteration or rehabilitation of, certified historic structures will not be considered new construction, so long as the structure is the owner's principal residence.
June 1986	46	Excess Tax Rates for Bonded Debt. Amended Section 1 of Article XIIIA, allowing the levy of a property tax rate in excess of the 1% maximum to pay interest and redemption charges on bonded debt approved by a two-thirds vote of the voters on and after July 1, 1978, for acquisition or improvement of real property.

APPENDIX (Continued)

History of Proposition 13 and Subsequent Amendments

Statewide Ballot	Proposition Number	Summary of Change Adopted
June 1986	50	Replacement Property After Disaster. Amended Section 2 of Article XIIIA, allowing the transfer of assessed value from a property substantially damaged or destroyed by a disaster to a comparable replacement property in the same county. Also set forth definitions of "substantially damaged or destroyed" and "comparable." Applies to property acquired or newly constructed on or after July 1, 1985.
November 1986	58	Transfers of Property Within Families. Amended Section 2 of Article XIIIA, providing that change in ownership will not include: (1) the transfer of real property between spouses since March 1, 1975; and (2) the transfer of a principal residence and first $1 million of other real property between parents and children. Also provided that unless specified otherwise, amendments to Section 2 will apply to changes of ownership which occur, and new construction which is completed, after the effective date of the amendment.
November 1986	60	Replacement Residences of Senior Citizens, Moves Within Counties. Amended Section 2 of Article XIIIA, permitting the Legislature to allow persons over age 55, who sell their residence and buy or build another of equal or lesser value in the same county within two years, to transfer the old residence's assessed value to the new residence.

APPENDIX (Continued)

History of Proposition 13 and Subsequent Amendments

Statewide Ballot	Proposition Number	Summary of Change Adopted
November 1988	90	Replacement Residences of Senior Citizens, Moves Between Counties. Amended Section 2 of Article XIIIA, permitting the Legislature to extend the relief allowed by Proposition 60 of November 1986 to replacement residences located in a different county from the original residence, if the county of the replacement dwelling has adopted an ordinance participating in the program. Applied to replacement dwellings acquired on or after a county ordinance is adopted, but not before November 9, 1988. Amended the language adopted in Proposition 58 of 1986 to provide that unless provided otherwise, amendments to Section 2 adopted after November 1, 1988, will apply to changes in ownership that occur and new construction that is completed on or after the effective date of the amendment.
June 1990	110	Replacement Residences of Disabled Persons. Amended Section 2 of Article XIIIA permitting severely and permanently disabled persons to transfer the base year value of an original residence to a replacement residence of equal or lesser value under certain circumstances. Also exempts modifications to improve accessibility for the disabled from "new construction" reassessment. This measure's provisions parallel those of Propositions 60/90 with respect to qualifying replacement properties.

APPENDIX (Continued)

History of Proposition 13 and Subsequent Amendments

Statewide Ballot	Proposition Number	Summary of Change Adopted
November 1990	127	Seismic Retrofitting of Existing Buildings. Added a paragraph to Subdivision (c) of Section 2 of Article XIIIA allowing seismic retrofitting improvements or improvements utilizing earthquake hazard mitigation technologies to be constructed or installed in existing buildings without being subject to reassessment as new construction.
November 1992	160	Spouses of Persons Who Died on Active Duty in the Military. Allows the Legislature to exempt from property taxation, in whole or in part, the home of the spouse of a person who died as the result of a service-connected injury or disease while on active duty in military service unless the home is receiving another real property exemption.
November 1993	171	Replacement Property After Disaster. Amended Section 2 of Article XIIIA, allowing the transfer of assessed value from a property substantially damaged or destroyed by a disaster to a comparable replacement property located in another county if the county where the replacement property is located has adopted an ordinance permitting the transfer of value. Applies to property damaged on or after October 20, 1991.
June 1994	177	New Construction Exclusion for Disabled Accessibility Improvements. Amended Section 2 of Article XIIIA exempting modifications to improve accessibility for the disabled from "new construction" reassessment. This measure's provisions apply to property that is not the principal place of residence of a disabled person.

APPENDIX (Continued)

History of Proposition 13 and Subsequent Amendments

Statewide Ballot	Proposition Number	Summary of Change Adopted
March 1996	193	Grandparent – Grandchild Transfers of Property. Amended Section 2 of Article XIIIA excluding transfers of property between grandparents and grandchildren from change in ownership if the parents of those grandchildren are deceased as of the date of the transfer.
November 1998	1	Environmental Contaminations. Amended Section 2 of Article XIIIA to exclude property acquired or reconstructed as a replacement for property destroyed as a result of environmental contamination cleanup activities from fair market value reassessments.
November 2000	39	School Facilities Bonded Indebtedness, 55% Voter Approval. Amended Section 1 of Article XIIIA to reduce the voter approval threshold from two-thirds to 55% for school facilities.
June 2010	13	Seismic Safety Reconstruction. Amended Section 2 of Article XIII A to remove the 15-year time limit for unreinforced masonry Buildings. (See Prop. 23 of June 1984)

CHAPTER 5

GOVERNMENT APPROPRIATIONS LIMIT: ARTICLE XIIIB OF THE CALIFORNIA CONSTITUTION

HIGHLIGHTS

- What is the Appropriations Limit?
- Expenditures Versus Appropriations
- How the Appropriations Limit Works
- History of the State's Limit
- Relationship Between State and Local Limits

1. IN BRIEF: WHAT IS THE APPROPRIATIONS LIMIT?

Proposition 4, approved by the voters in November 1979, added Article XIIIB to the California Constitution. Article XIIIB limits the level of most appropriations from tax sources that the state and most local government entities are permitted to make in any given year. The limit for each year is equal to the limit for the prior year, adjusted for changes in the cost-of-living and population. Various other adjustments are also required. The first year in which appropriation limits applied to state and local governments in California was fiscal year (FY) 1980-81.

Article XIIIB also requires state and local governments to return to taxpayers (or in certain cases, K-14 education programs) any tax revenues in excess of the amount that can be appropriated in any given FY.

This constitutional provision also requires the state to reimburse local governments and school districts for the costs of complying with state mandates, and requires the Legislature to establish a prudent state reserve fund.

Article XIIIB was significantly modified by two initiative constitutional amendments approved by the state's voters in November 1988, Propositions 98 and 99. Proposition 111, approved by the voters in June 1990, made several additional significant revisions to the appropriations limit. Changes made by these propositions are noted in the following sections.

2. EXPENDITURES VERSUS APPROPRIATIONS

The terms "appropriations limit" and "spending limit" or "expenditure limit" are often used interchangeably, and there is some confusion about the difference between appropriations and expenditures.

An appropriation is an action by the Legislature to set aside an amount of money for a specified purpose. In short, an appropriation authorizes money to be spent. Appropriations are made in the annual Budget Bill, or in individual bills providing for specific governmental programs.

The actual expenditure of money occurs later, and is implemented by the State Controller. Writing checks is a ministerial function of the Controller. The Controller has no authority to expend money that has not been appropriated by the Legislature.

The amount of an expenditure on a program may not equal the appropriation for that program. For example, if the number of clients for a particular government service is actually less than anticipated, the appropriation may be larger than the amount actually spent.

Article XIIIB sets forth a limit on the amounts that may be appropriated from government tax proceeds. In the remainder of this chapter, Article XIIIB will be referred to as an appropriations limit, although in casual conversation and the popular press it is often called a spending limit.

3. HOW THE APPROPRIATIONS LIMIT WORKS

Most of the operative provisions of Article XIIIB are provided in the Constitution. Some features required statutory implementation, which was accomplished by legislation enacted in 1980, and again in 1990 for changes made by Proposition 111.

The paragraphs below describe how the appropriations limit works, based on both constitutional and statutory provisions. Opinions provided by the Legislative Counsel and the Attorney General have contributed to our interpretation of the provisions of Article XIIIB.

Which Governmental Agencies Have Limits? Article XIIIB applies to the state and to most units of local government -- cities, counties, K-12 school districts, community college districts, and special districts. Each governmental entity has its own appropriations limit. The few local governmental entities that are not subject to an appropriations limit are:

- Special districts in existence on January 1, 1987 that did not levy a property tax rate in excess of 12.5% in FY 1977-78; and,

- New special districts formed since that time by a vote of the people that are not funded from tax proceeds.

Which Revenues Are Subject to a Limit? Article XIIIB places a limit on appropriations from most, but not all, government revenue sources. The limit applies to appropriations from proceeds of taxes from both the general fund and special funds of government entities. Tax proceeds include tax revenues, interest earnings on invested tax revenues, and any revenues collected through a regulatory license fee or user charge in excess of the amount needed to cover the cost of providing the regulation, product, or service.

Appropriations from non-tax revenues are excluded from the limit. Examples of non-tax proceeds include lottery proceeds, tidelands oil revenues, federal funds, proceeds from the sale of government property, revenues from regulatory license fees or user charges equal to the amount needed to cover the cost of providing the function, gifts, and borrowed funds.

In addition, proposition 111 excluded appropriations from the following revenue sources from the limit:

- Gas and diesel tax revenues above nine cents per gallon;

- Sales and use taxes collected on gas and diesel taxes above nine cents per gallon; and

- Truck weight fees that exceed those in effect on January 1, 1990.

Which Appropriations Are Subject to Limit? Appropriations for almost all government functions are subject to limitation under Article XIIIB. However, there are some important exceptions.

The original Proposition 4 provided that the following appropriations are not limited, even if made from proceeds of taxes:

- Subventions from the state to local governments and schools, the use of which is unrestricted (these subventions are not subject to the state's limit, but instead are counted as subject to the local entity's limit);

- Appropriations to pay for costs of complying with federal laws and court mandates;

- Payments for interest and redemption charges on pre-existing (i.e., pre-Proposition 4) or voter-approved bonded indebtedness;

- Withdrawals from previously appropriated reserve funds; and,

- Refunds of taxes.

Proposition 99, adopted by the voters in November 1988, created another major category of appropriations not subject to the limit. These are appropriations of new tax moneys from cigarette and tobacco products resulting from tax increases imposed by Proposition 99. Under that statutory initiative, beginning in FY 1988-89, state revenues from those new or increased cigarette and tobacco taxes are set aside in special accounts for expenditure on treatment or research of tobacco-related diseases, tobacco health education programs, and wildlife preservation and related programs. All such appropriations are exempt from limitation under Article XIIIB.

Proposition 111 excluded capital outlay from the appropriations limit. This change reflects the fact that while capital outlay appropriations are made during a single budget year, they reflect long-term investments that are utilized over a number of years.

Appropriations directly related to an emergency, such as a fire, earthquake, or other natural disaster, were also excluded from the limit by Proposition 111. No reduction in future limits is required for appropriations made for these emergency purposes.

The "Base Year" Limit. The first year that limits were in effect was FY 1980-81. The base year for determining the appropriations limit in FY 1980-81 was FY 1978-79. Actual appropriations in the 1978-79 FY that had been financed by the proceeds of taxes were the starting point. Appropriations not subject to limitation (see above) were subtracted from that figure and this became the "base year" level of appropriations for computing all subsequent years' limits.

Proposition 111 updated the base year for calculating the limit for each government entity to FY 1986-87. For fiscal years beginning with FY 1990-91, the limit for each entity is the FY 1986-87 limit adjusted annually as specified by Article XIIIB as amended by Proposition 111.

Base year appropriations limits for new local government entities incorporated after the enactment of Article XIIIB are to be established by local agency formation commissions or county formation review commissions, and approved by the voters of the incorporation or formation elections.

Annual Adjustments to the Limit. The appropriations limit for each year since FY 1980-81 is calculated by adjusting the base year limit for changes in the cost-of-living and population. Proposition 111, passed by the voters in June 1990, revised each of the adjustment factors. Specifically, annual adjustments to limits, either upward or downward, are made as follows:

- Cost-of-Living.

  State and schools. Governments' limits are adjusted by the change in California per capita personal income.

  Local agencies (except schools). Limits are adjusted by the change in California per capita personal income or the change in the local property tax roll due to the addition of new nonresidential construction.

- Population.

  State. The population factor is calculated by adding: (a) the change in the state's total population weighted by the percent of the budget spent on non-educational programs, and (b) the change in average daily attendance (ADA) for K-14 education weighted by the percentage of the budget spent on K-14 education.

  Local agencies. The population factor is the percentage change in the jurisdiction or in the county in which the jurisdiction is located. Special districts located in two or more counties may use the change in the county in which the district has the highest assessed valuation.

  Counties. The population change for counties can be calculated by using one of three methods: (a) the percentage change in population within the county; (b) the percentage change in population for both the county itself and contiguous counties; or (c) the percentage change in population within the incorporated portion of the county.

  K-14 Schools. The change in population is the percentage change in average daily attendance.

- Program Transfers. Limits of governmental entities are modified to reflect transfers of financial responsibility from one level of government to another. The limit of the new service provider is increased by the amount the former service provider's limit is reduced.

- Funding Transfers. Adjustments either upward or downward are made to account for transfers of program funding sources, for example from tax revenues (subject to limit) to fees (not subject to limit).

The level of appropriations actually made by a government entity in any year does not have any bearing on the calculation of the appropriations limit for the subsequent years. Each year's limit is computed based on the prior year's limit, not the prior year's appropriations.

If the governing body actually appropriates less money than what would be permitted by the limit, it has "room" under its limit, and the limit will be further adjusted the following year for cost-of-living and population changes. A government entity does not "lose" room under its limit for the future by appropriating less than the maximum permitted in any year.

Appropriations Permitted in Excess of the Limit. Article XIIIB sets forth two circumstances under which governments may make appropriations in excess of their limits:

- Emergency. Appropriations for declared emergencies do not count towards and may be made in excess of the limit. Proposition 111 removed the requirement that the limits for future years must be reduced over a three-year period so that there would be no total increase in allowable appropriations.

- Voter Approval. Article XIIIB permits voters of a jurisdiction to authorize an increase in the appropriations limit. However, no voter-approved increase may be in effect for more than four years. At the end of the four-year period, either the voters must approve another increase or the limit must return to the level it would otherwise have been.

When Revenues Exceed the Appropriations Limit. A government entity may receive revenues during a fiscal year that exceed its appropriations limit. Proposition 111 allows governments to average appropriations over a two year period before becoming subject to the excess revenue provisions of Article XIIIB. In other words, a government entity can offset appropriations that exceeds its appropriations limit in one year of a two-year period by appropriating less than the limit in the other year. If revenues exceed the appropriations limit after taking this two-year averaging into account and authority to appropriate is not provided by either an emergency declaration or voter approval, Article XIIIB as amended by Propositions 98 and 111 sets forth a process for disposing of the excess state revenues:

- Education Programs. After the two-year averaging period, 50% of any excess revenues are transferred to the State School Fund for elementary, secondary and community college education. A portion of this excess revenue (25%) may effectively be built into the base used to calculate future funding required by Proposition 98 if the excess funds are used for a specified purpose. The transfer to education is not required if the state's average expenditure per student and average class size is equal to or exceeds that of the ten states with the best performance in these areas.

- Return of Excess. The 50% of excess revenues remaining after the transfer to education must be returned to taxpayers within the following two years. The return can be made through a reduction in the tax rate or as a fee reduction.

4. HISTORY OF THE STATE'S LIMIT, FYs 1980-81 TO 2010-11

How the Limit is Administered. Under statute, the Governor must submit to the Legislature along with the budget an estimate of the state's appropriations limit for the budget year. The estimate is subject to the budget process, and the official limit is established in the annual Budget Bill. The Department of Finance and the Legislative Analyst's Office have developed the methodologies necessary to compute the limit annually.

Effect of the State's Limit FYs 1980-81 to 1986-87. For the first five years that Article XIIIB was operative, it essentially had no constraining effect on state budgets. Changes in population and CPI outpaced the growth in state revenue in the early 1980s, so that actual revenues received were the constraint on the level of state spending until FY 1986-87.

During this period unused "room" under the state's appropriations limit peaked in FY 1982-83 at $3.4 billion, and declined steadily after that. A decline in the rate of inflation after that time reduced the rate at which the limit was raised annually, while at the same time a robust economy brought steady growth in state revenues. In late 1986, analysts were predicting that by FY 1987-88, the Article XIIIB appropriations limit would begin to function as a significant constraint on state spending.

However, an unanticipated surge in tax revenues in the spring of 1987 caught most observers by surprise. That revenue surge, caused primarily by taxpayer reaction to the federal Tax Reform Act of 1986, pushed the state substantially over its appropriations limit for the first time during the 1986-87 fiscal year. The state ended that fiscal year with $1.1 billion in excess revenues.

FY 1986-87 Rebate of Excess Revenues. During FY 1986-87 Article XIIIB required excess revenues to be returned by means of a tax rate reduction or fee reduction. The method selected to deal with the $1.1 billion in excess state revenues for the 1986-87 FY was to send rebate checks to 11.1 million personal income taxpayers.

The Limit Today. Revisions to the limit calculation implemented by Proposition 111 have continued to result in room under the appropriations limit in recent years. For example, California is expected to be $11.8 billion under the appropriations cap in FY 2014-15.

5. RELATIONSHIP BETWEEN THE STATE'S AND LOCAL GOVERNMENTS' LIMITS

Subventions. As noted above, subventions from the state to local governments that are unrestricted as to the purposes for which they may be spent are not counted as state expenditures subject to limit, but rather are counted against the local limit.

With respect to K-12 school districts, a portion of a district's revenue limit apportionment from the state constitutes a subvention for purposes of Article XIIIB. Subventions are defined as amounts necessary to fund the "foundation program," after taking into account local tax revenues. The "foundation program" represents a computed value that generally is less than the revenue limit amount. The balance of the regular apportionment, as well as apportionments for categorical programs, are not considered to be subventions. State subventions for community college districts are determined similarly.

Reporting Requirements. Legislation enacted in 1987 requires local entities to include information in their annual budget documents relating to their appropriations limits and their appropriations subject to the limit. Proposition 111 requires that the annual calculation of a local government entity's appropriations limit shall be part of that entity's annual financial audit.

6. CODE

California Constitution, Article XIIIB

Government Code Sections 7900-7914

Education Code Sections 41203-41206

CHAPTER 6A

OVERVIEW OF SPECIAL STATE TAX PROVISIONS AFFECTING SENIOR CITIZENS

HIGHLIGHTS

- Social Security Income Not Taxable
- Additional Personal Credits for Elderly and Blind
- Senior Head of Household
- Property Tax Reappraisal Relief for Senior Citizens
- No State Inheritance Tax

---

1. OVERVIEW

California has several tax programs benefiting the elderly. While many of the provisions are not directed specifically at seniors and may, in fact, be aimed at other groups of citizens, persons over age 55 are frequently the beneficiaries. Below is a list of state tax provisions for which many senior citizens qualify.

2. PERSONAL INCOME TAX BENEFITS

Social Security Income Not Taxable. Under California income tax law, Social Security and Tier 1 Railroad Retirement benefits are not taxable. In contrast, federal tax law requires 50% of Social Security benefits to be taxed if: (a) so-called "provisional income" exceeds $32,000 for married filers filing joint returns; or (b) provisional income exceeds $25,000 for any other filing status; and 85% of benefits received to be taxed if: (a) provisional income exceeds $44,000 for married filers filing joint returns; or (b) provisional income exceeds $34,000 for any other filing status. However, married taxpayers that file separately and live with their spouse at any time during the year are taxed on 85% of the total amount of benefits received. "Provisional income" equals a taxpayer's adjusted gross income plus any tax-exempt interest plus and any untaxed income from a foreign country plus one-half of a taxpayer's Social Security or Tier 1 Railroad Retirement benefits.

Additional Personal Credit for the Elderly and Blind. Every California taxpayer is entitled to personal exemption or dependent credits for all the members of the household.

An additional credit can be claimed for any person in a household who is: (a) age 65 or older on the last day of the tax year; or (b) blind. A person who is both elderly and blind is eligible for two additional credits on top of the personal or dependent credit.

The additional personal credit for either an elderly person or a blind person is $109 ($218 if both elderly and blind) in the 2015 tax year and may be claimed on the taxpayer's personal income tax return.

Earned Income Tax Credit. Starting with the 2015 taxable year, California allows a refundable earned income tax credit (EITC). The EITC amount, up to a maximum of $2,653, varies based on the taxpayer's earned income and the number of qualifying children. The EITC is available to California households with adjusted gross income (AGI) of less than:

- $6,580 if there are no qualifying children;
- $9,880 if there is one qualifying child; or
- $13,870 if there are two or more qualifying children.

Taxpayers qualify for the EITC if they have lived in California for more than half the tax year, have a valid social security number, have W-2 wages or other employee compensation subject to withholding, and meet other requirements. For taxpayers without a qualifying child, the taxpayer (or taxpayer's spouse if filing a joint return) must be between 25 and 65 years old at the end of the taxable year.

Renters' Credit. The amount of credit allowed varies based on the taxpayer's adjusted gross income (AGI) and filing status. AGI amounts are indexed annually for inflation. In 2015, a credit of $120 is allowed for married/registered domestic partners (RDPs) filing joint returns, head of household filers and qualifying widow(er) filers if AGI is $76,518r less, and $60 for other individuals (single or married/RDP filing separately) if AGI is $38,259 or less. The renters' credit is nonrefundable. See Chapter 6E (Renter's Credit) for more information.

Senior Head of Household. A California senior may claim a tax credit as a senior head of household in the amount of 2% of taxable income, up to a maximum of $1,317 for 2015, if certain conditions are met. The taxpayer must be 65 years of age or older by the end of the taxable year and must have qualified as head of household during one of the two preceding taxable years by providing a household for an individual who died during one of those years. In 2015, the taxpayer's adjusted gross income may not exceed $69,902. The maximum credit amount is indexed annually for inflation.

Tax Relief on Sale of Home. Like federal law, state law allows taxpayers to exclude up to $250,000 ($500,000 if married filing jointly/RDP) of gain realized on the sale or exchange of a principal residence. The exclusion is allowed each time a taxpayer selling a principal residence meets certain eligibility requirements, but generally no more frequently than once every two years. To be eligible for the exclusion, a taxpayer must have owned the residence and occupied it as a principal residence for at least two of the five years prior to the sale or exchange.

3. PROPERTY TAX BENEFITS

Property Tax Reappraisal Relief for Senior Citizens. Proposition 60, which was approved by voters in 1986, allows senior citizens over 55 years of age to maintain their property tax base year value for intra-county (within a county) replacements of principal residences. In order to carry over the base year value of the property sold, the replacement property value must be equal to or lower than the value of the senior's original residence. Seniors purchasing new homes in 2015, for example, may carry over their property tax base year value from their original home (for example, a home purchased in 1953) to their replacement home.

Proposition 90, approved by the voters in 1988, allows counties to extend Proposition 60 relief to inter-county (between counties) replacements of principal residences by seniors. However, this program is optional on the part of counties receiving the base year transfer (i.e., the new residence of the senior). Currently, only 10 counties (Alameda, El Dorado, Los Angeles, Orange, Riverside, San Bernardino, San Diego, San Mateo, Santa Clara, and Ventura) accept inter-county base year transfers.

Taxpayers must claim the property tax reappraisal relief through the local county assessor. See Section 6 of Chapter 4 in this Reference Book for more information.

4. NO STATE INHERITANCE TAX

California's inheritance tax was repealed by Proposition 6 in 1982.

California levies a "pickup" estate tax up to the maximum amount of the "state death tax credit" allowed against the federal estate tax. This "pickup" tax does not increase the overall tax liability of the estate. The federal "state death tax credit" was eliminated effective January 1, 2005. Thus, for decedents who die on or after January 1, 2005, there is no longer a state "pickup" tax. See Chapter 3D on Estate Tax for additional information.

5. CODES

California Constitution, Article XIIIA

Revenue and Taxation Code Sections 69.5, 13302, 17037, 17054, 17054.7, and 17087

CHAPTER 6A
OVERVIEW OF SPECIAL STATE TAX PROVISIONS AFFECTING SENIOR CITIZENS

CHAPTER 6B

SENIOR CITIZENS AND DISABLED PROPERTY TAX POSTPONEMENT PROGRAM

HIGHLIGHTS

- Type of Relief — Deferral of property taxes.
- Eligibility — Age or disability, blindness, occupancy, income, and home equity criteria must be met (see below).
- When to Claim — Annually, from October 1 – February 10
- Participants — 2015-16 — -0- *
- Loans Made — 2015-16 — -0- *

Chapter 703, Statutes of 2014, reinstated the Property Tax Postponement Program, administered by the State Controller's Office, beginning October 1, 2016.
*Chapter 4, Statutes of 2009, indefinitely suspended the program.
Chapter 369, Statutes of 2011 enacted the county deferred property tax program and allows each county to participate in a local program.

---

1. DESCRIPTION OF PROGRAM

The Property Tax Postponement Program will be available to qualifying senior, blind or disabled homeowners beginning October 1, 2016. To qualify, an applicant must be 62 or older, or blind or disabled, own and occupy the home as a primary residence, have a total household income of $35,500 or less, and at least 40% equity in his or her home.

Generally, the Property Tax Postponement program for senior citizens and blind or disabled persons will allow an eligible homeowner to defer payment of his or her *current fiscal year* property taxes on his or her primary residence. A qualified applicant may apply with the State Controller's Office; and upon verification of applicant eligibility and available funding, the state will make a payment directly to the county for the amount of the current fiscal year property taxes on behalf of the homeowner.

The program acts as a loan from the state to eligible property owners, with a 7% annual interest rate. The applicable simple interest rate and all interest charges are computed monthly and are added to the individual's postponement account. The loan is due and payable when the taxpayer dies, sells the home, moves, allows a "senior lien" to become delinquent, refinances the property, or obtains a reverse mortgage. There is no maximum amount of postponed property taxes that could accumulate under the program.

For the purpose of the postponement program, "property taxes" includes all current fiscal year taxes on the claimant's secured property tax bill, including special assessments, charges, and user fees, in addition to ad valorem taxes. However, "property taxes" does not include any prior year delinquent taxes, penalties, interest, charges, or fees. Special assessments levied independently of the county tax bill are not eligible for postponement.

The property tax postponement law was first passed in 1977 and was expanded on multiple occasions since that time. Originally designed for persons 62 years of age or older, the program was available to eligible blind and disabled persons regardless of age. The program was suspended in 2009, but reinstated in 2014, and will begin accepting applications October 1, 2016.

2. REPAYMENT OF POSTPONED PROPERTY TAXES

Repayment of postponed property taxes is required only under the following circumstances:

- The claimant dies or sells, conveys or disposes of the property, permanently ceases to occupy the premises as his or her principal place of residence, or allows any tax or assessment to become delinquent. Repayment is also required if he or she vacates the dwelling due to condemnation.

- The claimant allows foreclosure of liens to occur which have higher priority than that of the state (e.g., bank loans, mechanic's liens). In such cases, a notice of sale must be sent to the Controller by the foreclosing party.

- The claimant refinances the home.

- The claimant obtains a reverse mortgage after obtaining the Property Tax Postponement loan.

3. COST

During FYs 2009 through 2015, no property taxes were postponed.

4. CODE

Government Code Sections 16180-16211.5

Revenue and Taxation Code Sections 20501-20646

CHAPTER 6C

OVERVIEW OF SPECIAL STATE TAX PROVISIONS FOR HOMEOWNERS

HIGHLIGHTS

- Sales of a Principal Residence
- Deductibility of Home Mortgage Interest
- Deductibility of Real Estate Taxes
- Property Tax Benefits
- Homeowners' Exemption
- Property Tax Reappraisal Relief

---

1. OVERVIEW

California tax law contains a number of provisions for tax relief to homeowners. Tax relief is available for both property and personal income taxes, under certain circumstances.

2. PERSONAL INCOME TAX BENEFITS

Sale of a Principal Residence. In general, for federal purposes, all or part of the gain (up to $250,000 for single taxpayers and $500,000 for married taxpayers) from the sale of a principal residence may be excluded from taxable income. To qualify, a taxpayer must have owned and lived in the residence for at least two years out of the previous five years and have not excluded gain from the sale of another home during the two-year period ending on the date of the sale.

Generally, California conforms to federal law for the exclusion of gain from the sale of residence.

Under Federal law, for sales or exchanges occurring after December 31, 2008, the gain attributable to any period of time after 2008 that the property was not used as the principal residence of the taxpayer, taxpayer's spouse, or former spouse, may not be excluded from federal taxable income. [Internal Revenue Code (IRC) Section 121(b)(4)(A) [sic IRC Section 121 (b)(5)(A)] as enacted by PL 110-289]. California has not conformed to this change.

Deductibility of Home Mortgage Interest. Under both state and federal tax law, individuals that itemize deductions may deduct the interest paid on a home loan for their principal or secondary residence, subject to certain limitations. Interest is deductible on loans of up to $1 million (up to $500,000 if married filing separately) used to purchase a home and on home equity loans of up to $100,000 (up to $50,000 if married filing separately). However, the home equity loan may not exceed the difference between the fair market value of the home less the debt incurred to acquire the loan.

Deductibility of Real Estate Taxes Paid. Under both state and federal tax law, individuals who itemize deductions can claim deductions for real estate tax on Schedule A of their federal individual income tax return. Taxpayers are allowed to deduct only the amount of real estate tax paid during the year that is based on the assessed value of the property and not that portion that is assessed for a local benefit that tends to increase the value of the property. Amounts shown on the property tax bill that are not deductible include: special assessments, special taxes, fees, or other charges that are not computed based on the assessed value of the property, regardless of their purpose, with limited exceptions.

3. PROPERTY TAX BENEFITS

Homeowners' Exemption. Under the California Constitution, homeowners are eligible for a partial property tax exemption for their principal residence. The first $7,000 of the full value of the property is not taxed. So, if a principal residence has a base year value of $150,000, the amount on which property tax is assessed is $143,000. If the property tax rate is 1%, then the homeowners' exemption reduces the total tax from $1,500 to $1,430.

New owners must file with the county assessor by February 15 preceding the fiscal year for which the exemption is sought. If an eligible homeowner fails to file by February 15, he or she will receive 80% of the exemption, if a filing is made by December 10. (See Chapter 6D for more information on the homeowners' exemption.)

Property Tax Reappraisal Relief. Proposition 13 requires that property be reassessed at fair market value when there is a change of ownership or when it is newly constructed. Three significant exemptions from the change in ownership reassessment rule are:

- Intra-family Transfers. Under Proposition 58 of 1986, transfers of property between spouses are not considered changes in ownership (this codified implementing law previously enacted by the Legislature). In addition, Proposition 58 provided that transfers of principal residences plus transfers of up to $1 million of other property between parents and children are not subject to change in ownership reassessment.

Proposition 193 of 1996 provided that transfers between grandparents and grandchildren are not subject to reassessment if the parents of those grandchildren are deceased as of the day of the transfer.

- Replacement Residences of Senior Citizens. Under Proposition 60 of 1986 and Proposition 90 of 1988, senior citizens may transfer the adjusted base year value of the principal residence to a replacement principal residence, if the replacement is of equal or lesser value and located in the same county. The same relief is available for moves between counties if the county where the replacement home is located has adopted an ordinance permitting the valuation transfer. (See Chapter 6A)

- Replacement Residences of Severely and Permanently Disabled Persons. Under Proposition 110 of 1990, severely and permanently disabled persons, as defined, may transfer the adjusted base year value of the principal residence to a replacement principal residence. To qualify, the person must obtain a doctor's certificate as to the disability and must certify that the cause of the move is the disability itself or its financial consequences. The replacement residence must meet the same value tests established under Propositions 60 and 90.

Several exemptions from reappraisal due to new construction are also available. Among these exemptions are construction to improve seismic safety in an existing building, construction to modify an existing residence or other structure to improve accessibility for the disabled, and construction on a residence severely damaged in certain types of disasters. Property acquired or reconstructed as a replacement for property destroyed as a result of environmental contamination cleanup activities may also be excluded from fair market value reassessment.

4. CODES

Revenue and Taxation Code Sections 63, 63.1, 69.5, 70, 218, and Section 1715

CHAPTER 6C
OVERVIEW OF SPECIAL STATE TAX PROVISIONS FOR HOMEOWNERS

CHAPTER 6D

HOMEOWNERS' EXEMPTION

HIGHLIGHTS

• Type of Relief	Property Tax	
• Eligibility	Any person who, as of the January 1 lien date, owns and occupies a dwelling used as a principal residence.	
• When to Claim	Purchasers of residences are mailed a claim form that must be filed by February 15. A claim need only be filed once. For the supplemental assessment roll, the exemption must be claimed within 30 days following the date of notice of supplemental assessment.	
• Participants	5.2 million in 2014-15	
• Cost	2014-15 (Actual)	$404 million
	2015-16 (Estimate)	$424 million
	2016-17 (Estimate)	$428 million

Source: Governor's Budget Summary of 2016-17

1. DESCRIPTION OF EXEMPTION

The California Constitution [Article XIII, Section 3(k)] exempts the first $7,000 of the full value of a dwelling occupied as the owner's principal residence on the January 1 lien date from property taxation. For instance, if a principal dwelling has an adjusted base year value of $150,000, it will be assessed at $143,000 after deduction of the homeowners' exemption. The Legislature must reimburse local governments for property tax revenue lost due to this exemption pursuant to Article XIII, Section 25 of the California Constitution.

2. ELIGIBILITY

To be eligible for the homeowners' exemption, a person must occupy, as a principal place of residence, a dwelling that he or she owns. This includes mobilehomes assessed for property tax purposes. Owners of condominiums, cooperatives, and multiple residence dwellings are eligible for the exemption on the assessed value attributable to the portion they occupy.

The exemption does not extend to property that is rented, vacant, or under construction on January 1, nor does it apply to vacation or secondary homes of the owner, or to a dwelling on which an owner receives the veterans' or disabled veterans' exemption.

The exemption relates to a specific parcel of real property owned by a qualified individual. When a property with a homeowners' exemption in effect is sold, the property retains the exemption so the benefit of the homeowners' exemption transfers to the purchaser for a limited time.

If the previous owner claimed the homeowners' exemption on the property, the property sold retains its exemption for the remainder of the fiscal year and that exemption will be automatically applied to the tax bill. However, the new owner must apply for the homeowners' exemption for the subsequent fiscal year.

If the previous owner failed to file or did not qualify for the exemption, the new owner may apply for the exemption on the supplemental roll after the change of ownership. (See Chapter 4 of this Reference Book for more information on the supplemental roll). In addition to filing the application on a timely basis, the owner must meet the requirement for the exemption no later than 90 days after the date of the change of ownership.

3. APPLICATION PROCEDURE

Eligible homeowners filing for the exemption for the first time must file with the county assessor by February 15 preceding the fiscal year for which the exemption is sought. If an eligible homeowner fails to file by February 15, he or she will receive 80% of the exemption, if a filing is made by December 10. If the owner misses the December 10 filing date, no exemption is allowed for that year.

Once an eligible homeowner files for the exemption, that owner will be automatically granted the exemption for that property in future years. The homeowner is responsible for notifying the assessor only when he or she is no longer eligible. Penalties are assessed for failure to do so.

For assessments on the supplemental roll, the eligible homeowner must file for the exemption with the county assessor on or before the 30th day following the date of notice of the supplemental assessment and must meet the exemption requirements no later than 90 days after the date of the change of ownership or date of completion of new construction. If an eligible homeowner fails to file on a timely basis, he or she will receive 80% of the total exemption if filing is made on or before the date on which the first installment of supplemental taxes becomes delinquent.

4. LIMITATIONS ON EXEMPTION INCREASES

The Constitution allows the Legislature to increase the size of the homeowners' exemption, but if it does so, two other actions are required:

- The Legislature must increase the rate of state taxes in an amount sufficient to pay for the increased cost of state subventions to local governments; and
- The Legislature must provide a comparable increase in benefits to qualified renters.

5. COST

The state cost of the homeowners' exemption was $404 million in fiscal year (FY) 2014-15, and is estimated to be $424 million in FY 2015-16, and $428 million in FY 2016-17. These amounts are subvened to local governments to offset the loss in property tax revenue.

Over 5 million homeowners receive this exemption.

6. CODE

California Constitution, Article XIII, Section 3(k)

Revenue and Taxation Code Section 218

Government Code Sections 16120-16123

CHAPTER 6D
HOMEOWNERS' EXEMPTION

CHAPTER 6E

RENTER'S CREDIT

HIGHLIGHTS

• Type of Relief	The renter's credit is a nonrefundable personal income tax credit intended to provide partial relief from the property tax.
• Eligibility	Any person who rented and occupied a California premises as a principal residence for at least 50% of the taxable year.
• Amount of Credit	$60 (single and married/registered domestic partner (RDP) filing separately), $120 [married/RDP filing jointly, head of household, and qualifying widow(er)].*

• Cost to the General Fund **	2013-14	$110 million
	2014-15	$110 million
	2015-16	$110 million

*The credit is phased out above specified adjusted gross incomes
**Costs to the General Fund are initially estimated and revised as data become available
Source: Franchise Tax Board

1. DESCRIPTION OF CREDIT

Under California law, qualified renters are allowed a nonrefundable personal income tax credit. The credit is a flat amount and is unrelated to the amount of rent paid. In 2015, a $120 credit was available to married/RDP taxpayers filing jointly, head of household filers, and qualifying widow(er) filers with adjusted gross incomes of $76,518 or less. A $60 credit was available to single/RDP taxpayers and married taxpayers filing separately with adjusted gross incomes of $38,259 or less. These phase-out amounts are indexed annually for inflation. The rate of inflation in California, for the period from July 1, 2014 through June 30, 2015, was 1.3 percent. The 2015 phase-out amounts are indexed by this amount.

2. ELIGIBILITY

- A "qualified renter" is an individual who:

- Is a California resident; and,

- Rented and occupied California premises constituting his or her principal place of residence for at least 50% of the taxable year. Persons residing in mobilehomes qualify if the land on which their mobilehome sits is rented.

Any otherwise qualified renter who is a nonresident for a portion of the taxable year is allowed 1/12 of the renter's credit for each full month that the individual resides in the state during the taxable year.

A "qualified renter" does not include individuals:

- Who for more than 50% of the taxable year rented and occupied premises that were exempt from property taxes;

- Whose principal place of residence for more than 50% of the taxable year was with any other person who claimed that individual as a dependent for income tax purposes; or,

- Who has been allowed or whose spouse has been allowed the homeowners' property tax exemption during the taxable year.

Revenue and Taxation Code Section 17014 defines a "resident" as:

- Every individual who is in this state for other than a temporary or transitory purpose; and,

- Every individual domiciled in this state who is outside the state for a temporary or transitory purpose.

3. APPLICATION PROCEDURE

All California personal income tax booklets include a Nonrefundable Renter's Credit Qualification record. By answering the questions on the qualification record, taxpayers can determine if they qualify to claim the nonrefundable renter's credit.

A separate application is not required. Those who qualify may claim the credit on their tax returns.

4. COST TO GENERAL FUND

The state cost of the renters' credit was $110 million in fiscal year (FY) 2014-15, and is estimated to be $110 million in FY 2015-16.

5. CODE

Revenue and Taxation Code Section 17053.5

CHAPTER 6F

OPEN SPACE AND AGRICULTURAL LAND CONTRACTS (WILLIAMSON ACT)

HIGHLIGHTS

• Type of Relief	Partial relief from the property tax.	
• Eligibility	Must own agricultural, open space, or recreational land.	
• When to Claim	Contracts may be signed with local governments any time, depending on county or city rules.	
• Number of Acres Under Contract	Approximately 16 million	
• Cost to State	2011-12	$1,000.00
	2012-13	$ 0.00
	2013-14	$ 0.00
	2014-15	$ 0.00

---

1. DESCRIPTION OF PROGRAM

The California Land Conservation Act of 1965 (the Williamson Act), enables cities and counties to enter into contracts with landowners to restrict land for agricultural use. Participating landowners receive a tax reduction, because the land is valued according to the income it generates from agriculture (use value) rather than fair market value. Until the 2010-11 fiscal year, state subvention payments were made to local governmental agencies as partial reimbursement for the tax revenue lost due to the preferential assessment of land under contract.

Beginning in 1999, SB 1182 (Costa), Chapter 353, Statutes of 1998, established the Farmland Security Zone (FSZ) provisions of the Williamson Act. These FSZs are intended to strengthen the Williamson Act by expanding the options available to landowners and local governments, including providing landowners with a guaranteed reduction in property taxes. In return for the increased reduction in property taxes for local landowners, FSZ contracts are twice as long and contract cancellation is more difficult and twice as expensive. These FSZ contracts give landowners a greater property tax reduction but restrict the land for agricultural purposes for a longer period of time. Land subject to a FSZ contract is valued at 65 percent of the value assigned under the Williamson Act. The FSZ contracts were further defined by SB 649 (Costa), Chapter 1019, Statutes of 1999. (See Chapter 4 of this Reference Book for more information on standard property tax valuation procedures.)

The purpose of the Williamson Act is to preserve the limited supply of agricultural land, especially prime agricultural land, and to discourage the premature and unnecessary conversion of agricultural land to urban usage. In addition to agricultural land, allowable compatible uses under the Williamson Act include scenic highway corridors, wildlife habitat, salt ponds, managed wetlands, submerged areas, recreational lands and lands enrolled in either the United States Department of Agriculture conservation reserve program or conservation reserve enhancement program.

The 2014 Land Conservation Act Status Report represents data submitted to the Department of Conservation regarding program participation during 2012 and 2013 as part of the annual Open Space Subvention payment application process. As of the 2013 snapshot, approximately 15.4 million acres were reported as being enrolled statewide. This is a slight increase in reported enrollment compared with the approximately 15 million acres reported in the 2012 Status Report. This increase, however, represents improved reporting this period, as opposed to actual enrollment increases. The number of counties that did not report decreased from 10 to 8 this cycle. Overall, county reporting has become less consistent since 2010. Some counties have indicated that the inconsistency in reporting is due to the decrease and eventual loss of Open Space Subvention payments to local government from the State General Fund.

2. ELIGIBILITY

Any city or county with a general plan may elect to establish agricultural preserves. An agricultural preserve must be at least 100 acres, unless a city or county determines that a smaller preserve is justified by the unique characteristics of the agricultural enterprises in the area, and if the size is consistent with the general plan.

A city or county may impose restrictions, terms and conditions, including payments and fees, in addition to those allowed under the Williamson Act. They may also establish the compatible uses allowed in preserves relative to agricultural uses or production.

3. METHOD OF ASSESSMENT

Both Williamson Act and FSZ property is subject to the assessment by one of three methods:

- Capitalization of Income. Contracted property is assessed on the basis of current capitalized income, which reflects its income producing or "use" value.
- Unrestricted Value. The property is valued at its unrestricted, factored, base year value. This is the method used for most all other property pursuant to Proposition 13 (Article XIIIA of the California Constitution).

- Current Market Value. Market value assessment is based on the current, comparable sales approach.

The lesser of the capitalization of income, factored base year value, or current market valuation is used to determine the amount of property taxes owed on land enrolled in Williamson Act contracts.

An alternate method of assessment (Revenue and Taxation Code Section 423.3), which is voluntary on the part of cities and counties, enables an assessed value of lands to be at a specified percentage below the unrestricted value. San Joaquin, Tulare, Merced, Ventura, Imperial, and Sonoma Counties have adopted provisions to use this method.

The assessment approach used in a given year will vary depending on whether farm income is high or low in comparison with property valuation factors. Until the 2010-11 fiscal year, the state, through a subvention program, partially reimbursed local governments for the tax revenue loss resulting from participating in the Williamson Act program and for the costs to administer the local program. The subvention was based on the type of land under contract (prime or nonprime), rather than on the actual tax revenue loss. Subvention payments are $5.00 per acre for prime land and $1.00 per acre for nonprime land. However, subvention payments of $8.00 per acre are paid for FSZ land that is located within an incorporated city or within three miles of the sphere of influence of that city. In Fiscal Year (FY) 2010-11, AB 1389 reduced subvention payments by 10 percent. In FY 2011-12, subventions were reduced to $1,000 in the budget. In FY 2012-13, 2013-14, and 2014-15, subventions were reduced to zero.

Beginning January 1, 2015, AB 2241 (Eggman), Chapter 582, Statutes of 2014, will take effect, establishing a new distribution formula for rescission fees assessed on solar-use easements until January 1, 2020. The rescission fee for removal of the contract and reentry into a solar-use easement will be 10 percent of the fair market value of the property for land under a Williamson Act contract or Farmland Security Zone. AB 2241 also requires that only 50 percent of the rescission fees collected are to be deposited in the State General Fund.

4. THE CONTRACTS

Each Williamson Act contract runs for a minimum of 10 years (Sacramento, Mariposa, and Monterey counties have allowed 20-year contracts) and is automatically renewed each year, unless either the landowner or local government files for nonrenewal. FSZ contracts have an initial 20-year term and automatically renew each year. If a contract is not renewed, contractual restrictions remain for nine more years for Williamson Act contracts and 19 more years for FSZ contracts. During that period, taxes on the property gradually return to the level of taxes on unrestricted property according to a schedule specified in statute.

A landowner who wishes more immediate cancellation of an existing contract may petition the local government to cancel the contract but must pay a fee equal to 12.5 percent of the fair market value of the property for Williamson Act property or 25 percent of the fair market value of the property for FSZ property. Cancellation may only be granted after a board of supervisors or city council has made specified findings. The Department of Conservation's approval is also requested for cancellation of a FSZ contract. Recent court cases have emphasized that nonrenewal is the preferred method of terminating a Williamson Act contract.

As a result of eliminating subvention funds from the budget, AB 1265 (Nielson), Chapter 90, Statutes of 2011, authorized local jurisdictions until January 1, 2016, to revise the terms of Williamson Act contracts and allowed for a reassessment of the property in any fiscal year if, in the previous fiscal year, the local jurisdiction received less than one-half of the foregone property tax revenues in subventions from the state. This change in law allows counties to recapture 10 percent of the property tax benefits provided to the owners by shortening the term of the contract by one year for Williamson Act contracts and two years for FSZ contracts, thereby triggering a statutorily authorized recapture of 10 percent of the participating landowners' property tax savings. SB 1353 (Nielsen), Chapter 322, Statutes of 2014, permanently eliminated the sunset provision in AB 1265.

5. CONTRACT APPLICATION PROCEDURE

Application to place land under contract must be submitted by landowners to the city or county planning department.

6. CODE

California Constitution, Article 13, Section 8

California Administrative Code Title 14, Chapter 2

Government Code Sections 16140-16154, and Sections 51200-51297.4

Revenue and Taxation Code Sections 421-430.5

CHAPTER 6G

MOBILEHOME TAXATION

HIGHLIGHTS

• Mobilehomes Taxes	Sales or use tax when sold. Property Tax or Vehicle License Fee (VLF), depending on date of mobilehome purchase.
• Tax Exemptions	Partial sales or use tax exemption for some mobilehomes.
• Administration	Sales and Use Tax: Board of Equalization (BOE) Property Tax: County Assessor Vehicle License Fee: Department of Housing and Community Development (HCD)

1. OVERVIEW OF MOBILEHOME TAXATION

The taxation of mobilehomes is somewhat complex. Since the late 1970s, the law has been modified many times to reflect the changing role of mobilehomes in our society from primarily vehicles to primarily stationary housing. Mobilehomes are generally subject to two major kinds of taxes: (a) sales or use taxes at the time of sale or resale, and (b) either the property tax or the VLF annually. When applied to mobilehomes, the VLF is commonly called the "in-lieu tax (ILT)", as it is seen as a tax in lieu of the property tax. The specifics of these taxes are summarized below.

2. SALES TAXES ON MOBILEHOMES

The following guidelines are used when applying the sales tax to mobilehomes.

For New Mobilehomes:

- A new mobilehome sold after July 1, 1980, to a customer for occupancy as a residence is subject to tax on 75% of the dealer's cost, regardless of whether or not the mobilehome is installed on a permanent foundation. This represents a partial exemption, since the sales tax is normally applied to 100% of the retail price of an item.

- A new mobilehome sold for any nonresidential use is subject to sales tax on 100% of the sales price of the mobilehome.

For Used Mobilehomes:

- A used mobilehome that is subject to the local property tax (see below) is exempt from the sales tax.

- A used mobilehome that is subject to the VLF (see below) is subject to sales tax based on its current value, as determined by a recognized value guide, if the sale is:

  a) Through a person licensed as a dealer and not on the dealer's own account;

  b) Through a licensed real estate broker; or,

  c) A private party transaction.

  However, if the value guide does not include the age, model, and manufacturer of the particular mobilehome, or if the actual sales price is less than the value specified in the value guide, the sales tax is based on the actual sales price of the mobilehome.

- A used mobilehome subject to the VLF is subject to sales tax based on the sales price of the mobilehome if it is sold by a dealer acting on his or her own account and not as a broker.

  The sales price includes charges for awnings, skirting, and other property sold with the used mobilehome that is not directly affixed to real property. Separately stated charges for existing real property improvements (such as concrete, landscaping, or in-place location value) are not subject to the sales tax.

3. DETERMINING WHETHER A MOBILEHOME IS SUBJECT TO THE PROPERTY TAX OR VEHICLE LICENSE FEE

- New mobilehomes installed on a permanent foundation system are considered a fixture improvement to the underlying real property and are taxed in the same manner as conventional housing (See Chapter 4 of this Reference Book for a description of the Local Property Tax.)

- New mobilehomes sold prior to July 1, 1980 and installed on a nonpermanent foundation system are subject to the VLF. (See Chapter 3F of this Reference Book for a description of the VLF.)

- New mobilehomes sold on or after July 1, 1980 and installed on a nonpermanent foundation system are classified as personal property, but special provisions in the law essentially treat mobilehomes the same as real property.

- Used mobilehomes that are sold are taxed under the tax system that applied to the home before the sale.

- Owners of pre-July 1, 1980, mobilehomes subject to the VLF continue to be taxed that way, unless the owner chooses to transfer the mobilehome to the property tax roll.

- Owners of pre-July 1, 1980, mobilehomes subject to the VLF that are located in a mobilehome park converted or proposed to be converted to a resident-owned subdivision, cooperative, condominium, or nonprofit corporation may choose to transfer the mobilehome to the property tax roll.

- Mobilehomes subject to the VLF on which the registration lapsed for 120 days or more between July 1, 1980, and October 1, 1984, and on which reinstatement to the VLF system was not applied for by December 31, 1986, were automatically placed on the property tax rolls, with delinquent taxes and fees included in the property tax bill.

- Mobilehome accessories (e.g., skirting, awnings, etc.) are also subject either to the property tax or the VLF.

- Accessories purchased as part of the mobilehome package prior to 1977 are subject to VLF. Generally, accessories purchased after July 1, 1980, are subject to the property tax when they are affixed to a mobilehome placed on a permanent foundation or affixed directly to real property. Accessories purchased between 1970 and 1980 are subject to one or the other of those two taxes, but not both.

4. HOW THE PROPERTY TAX APPLIES TO MOBILEHOMES

Mobilehomes subject to property tax are entered on the secured roll by the county assessor and are eligible for the homeowners' exemption. Where the resident owns both the mobilehome and the underlying land, a single property tax bill for land and improvements is issued. The mobilehome owner may also be eligible for property tax relief available to other homeowners, such as Property Tax Assistance or Property Tax Postponement. (See Chapter 4 of this Reference Book for a description of the secured roll, Chapter 6D for a discussion of the Homeowners' Exemption, and Chapter 6B for a description of the Senior Citizens Property Tax Postponement Program.)

Often, an occupant of a mobilehome will own the mobilehome but lease or rent the underlying land. In that case, the land is separately assessed to the mobilehome park owner. The occupant may claim the homeowners' exemption in this situation if other applicable requirements are met.

The general rules established by Proposition 13 regarding property tax rates and valuation apply to mobilehomes subject to property tax (see Chapter 4). If the fair market value of the mobilehome declines below the adjusted base year value, the assessor will reassess the mobilehome downward under the decline in value provisions, as described in Chapter 4. Special rules also apply to disaster damage to mobilehomes.

5. HISTORY OF MOBILEHOME TAXATION

Prior to 1979, it was illegal to place a mobilehome on a permanent foundation, and mobilehomes were treated as vehicles for tax purposes. Thus, mobilehome owners paid an annual VLF set at 2% of market value, which was depreciated each year according to a statutory schedule. Most of the VLF revenue at that time was allocated to cities, counties and schools by formula on the basis of population. Mobilehome owners renting space in mobilehome parks were eligible for the Renters' Credit and Senior Citizens Renter Assistance, but were not eligible for the homeowners' exemption or the Senior Citizens Property Tax Assistance and Postponement Programs.

After major mobilehome taxation legislation passed in 1979 and 1980, most existing mobilehomes continued to be taxed basically as they had been. These homes remained subject to the VLF, which has provided them with considerable reductions in their tax liabilities as the state has enacted several VLF rate reductions.

However, mobilehomes purchased new after July 1980 and occupied as residences are now treated very much like conventional homes with respect to property tax liability. Over time, most mobilehomes occupied as residences will be subject to local property taxation rather than the VLF.

6. COMPARISON OF TAXATION OF CONVENTIONAL HOUSING AND MOBILEHOMES

The purchaser of a conventional home does not pay sales tax on the purchase price of the home. Instead, the sales tax has been imposed during the construction of the home through building materials sold to the builder. The purchaser of a new mobilehome pays the sales tax on a portion of the retail price of the home, since the tax is based on 75% of the dealer's price (presumably less than the retail price). The purchaser of a used mobilehome subject to the property tax does not pay sales tax on the purchase.

For factory-built housing, only 40% of the cost to the buyer is subject to sales tax, which is intended to represent the portion attributable to materials.

Owners of both conventional homes and mobilehomes are eligible for various types of tax relief, including income tax deductions of home mortgage interest, the homeowners' property tax exemption, property tax assistance and postponement, etc.

Transfers of mobilehomes installed on non-permanent foundation systems are processed by the HCD and are not subject to any local government-imposed documentary transfer taxes. Transfers of mobilehomes installed on permanent foundations, which are considered to be an improvement to the real property to which they are attached, are handled at the local government level through the county recorder's offices. There may be fees assessed by local governments on these transfers.

7. ADMINISTRATION

The BOE administers the sales and use tax on mobilehomes, the local county assessor administers property taxation of mobilehomes, and HCD administers the VLF. Although most VLF on mobilehomes is collected by HCD, the Department of Motor Vehicles (DMV) still registers and collects the VLF on occasional mobilehomes. Generally speaking, HCD is authorized to collect delinquent VLF, while local county assessors are authorized to collect delinquent property taxes. In a very small number of instances (i.e., VLF collected by DMV on occasional mobilehomes), the Franchise Tax Board is authorized to collect delinquencies.

8. CODE

Health and Safety Code Sections 18000-18700

Revenue and Taxation Code Sections 5800 et seq., 6012.2, 6012.7, 6012.8, 6012.9, 6276.1, 6379, and 10701 et seq.

For property tax purposes, both mobilehomes and conventional homes are subject to the same Proposition 13 valuation rules, as described above and in Chapter 4 of this Reference Book.

CHAPTER 6G
MOBILEHOME TAXATION

CHAPTER 7

OVERVIEW OF CALIFORNIA TAX ADMINISTRATION

HIGHLIGHTS

- Franchise Tax Board (FTB)
- Board of Equalization (BOE)
- Employment Development Department (EDD)
- Local Property Taxes

California's tax system is administered by a number of different state agencies, as well as by county assessors (Table 12). These agencies are charged with implementing tax law, enforcing tax statutes, collecting tax liabilities, and remitting moneys collected to the state's General and special funds and local jurisdictions. Two agencies share responsibility for the "big three" state taxes - personal income, corporation, and sales and use taxes. The FTB administers the personal income and corporation taxes. The BOE administers the sales and use tax. The BOE also serves as an appeals panel for taxpayer disputes with the FTB.

This chapter outlines the responsibilities of the various administrative agencies. For additional information or answers to specific questions, please refer to the sections of this Reference Book dealing with specific taxes or contact the administering agency.

1. FRANCHISE TAX BOARD

The FTB administers the Personal Income and Corporation Tax Laws. Together the taxes raised under these laws accounted for 73% of the state's General Fund revenues during the fiscal year 2013-14.[1] The FTB is charged with developing and maintaining compliance, reporting, and payment systems for these two taxes. In addition, the FTB performs Political Reform Act audits, operates the Interagency Intercept Collection Program[2] and collects nontax debt that includes delinquent Vehicle License Fees and court-imposed payments.

[1] Provided by the State Controller's Office at htpp://www.sco.ca.gov/state_finances_101_state_taxes.html
[2] The Interagency Intercept Collections (IIC) Program intercepts (offsets) refunds when individuals have delinquent debts owed to government agencies and California colleges. The FTB administers the IIC Program on behalf of the State Controller's Office.

A three-member board consisting of the State Controller, the Chair of the BOE, and the Director of the Department of Finance governs the FTB.

Personal Income Tax. California taxes residents on their income from all sources while nonresidents are taxed on income derived from California sources. Tax returns are due from most individual taxpayers on April 15th for the preceding year.

Personal income taxes are withheld by employers from taxpayers' wage and salary income throughout the year. Quarterly estimated tax payments are required on income that is not subject to withholding. The tax liability that exceeds the tax withheld and the estimated tax payments made during the year is due together with the tax return on April 15. Amounts withheld in excess of taxes due can be claimed as a refund, contributed to a designated fund, or applied to the next year's tax liability on the taxpayer's tax return.

Corporation Tax. Corporation tax is imposed on corporations and businesses within the state as well as businesses that receive income from sources in this state. Generally, corporation tax returns are due on the 15th day of the third month following the close of the taxable year. Corporations are required to pay estimated taxes in quarterly increments.

Appeals Process. After examining a taxpayer's return or conducting an audit, the FTB may issue a Notice of Proposed Assessment (NPA) indicating that additional taxes are owed (i.e., that a deficiency exists) for taxes administered by the FTB. Taxpayers, whether personal income or corporation tax filers[3], that dispute a deficiency assessment proposed by the FTB can protest and appeal using the following process:

- Within 60 days after the NPA (deficiency) is issued, a taxpayer must file a written notice of protest with the FTB[4]. The taxpayer is not required to pay any amount under dispute at this time. However, if the proposed deficiency assessment is eventually determined to be owed, interest will accrue from the initial due date.

- The FTB reviews the protest, reviews documentation or holds a hearing as required, and notifies the taxpayer of the disposition with a Notice of Action (NOA).

[3] Some businesses may adhere to personal income tax law including partnerships, limited liability corporations, and S-corporations.
[4] Beginning on January 1, 2016, an Individual and Fiduciary taxpayer may file an electronic notice of protest with the FTB.

- Taxpayers that dispute an NOA may appeal to the BOE in writing within 30 days of the date on the NOA. The BOE will then consider the appeal and, where appropriate, hold a hearing on the appeal. It is not necessary for the taxpayer to pay the tax prior to filing an appeal with the BOE. The BOE will affirm, reduce, or eliminate the deficiency assessment.

- Taxpayers that disagree with the BOE's final determination may file suit in Superior Court. However, in all cases other than those involving a determination of residency, the taxpayer must pay the amount in dispute and file a claim for refund with the FTB before filing the suit.

The FTB or the BOE may abate interest relating to a deficiency assessment to the extent the interest is attributable to an unreasonable error or delay by the FTB in performing a ministerial or managerial act. If the BOE determines that the FTB's action was unreasonable, the taxpayer also may be eligible for reimbursement of reasonable fees and expenses incurred in pursuing the appeal.

When the BOE's determination on the NOA is final and if the amount due remains unpaid, the FTB may pursue collection activities. The collection activities may include filing a public tax lien, levying on wages and/or bank accounts, and seizing and selling property. Applicable interest rates on amounts due and on the imposition of penalties are specified in statute.

Income Tax Settlement Authority. The FTB also has authority to settle civil tax matters in dispute without using the normal appeals process. Settlement authority applies to both personal income and corporation tax disputes. The FTB settlement authority is patterned on federal settlement authority and is intended to provide an alternative to the cost and risks inherent in litigation.

As of January 1, 2015, in situations where the proposed reduction of tax and/or penalties exceeds $10,200, any recommended settlement must be reviewed by the Attorney General for reasonableness from an overall perspective. The recommended settlement is then presented to the FTB (Board) in closed session. The Board must approve or disapprove the settlement recommendation within 45 days or it will be deemed approved. Disapproval must be by majority vote of the Board. Cases that involve reductions of tax and/or penalties of $10,200 or less are reviewed and approved by the Executive Officer and Chief Counsel, jointly.

All settlements involving reductions of taxes or penalties in excess of $500 become matters of public record.

2. BOARD OF EQUALIZATION

The BOE administers the Sales and Use Tax Law, a number of business taxes and environmental fees, property taxation of public utilities, and has oversight responsibility for local property tax administration. The Board itself consists of four elected members and the State Controller. The Board also adopts regulations necessary to implement the taxes and fees it oversees.

Sales and Use Tax. The BOE collects sales and use taxes from retailers and distributes revenues due to the state and to local jurisdictions. The BOE also administers transactions and use taxes for local jurisdictions on a contract basis, retaining a small portion of the revenues as an administrative fee.

The BOE routinely audits taxpayers to determine whether sales and use taxes are accurately reported. If the BOE determines that there is a deficiency, it must provide the taxpayer with written notice of the determination. The taxpayer may file for redetermination within 30 days. After a petition for redetermination is made, a hearing before the BOE is held.

State-Assessed Property. The BOE assesses property owned by public utilities operating in multiple counties. The BOE assigns a value to the property in each county and allocates that value to individual county assessors, who are responsible for levying and collecting any property taxes due. Disputes over values assigned to state-assessed properties may be taken to the Board members for a formal hearing.

Other Taxes. The BOE is also responsible for administering and collecting a number of other taxes and fees, which are collectively known as BOE's "Special Taxes and Fees." These taxes and fees include the Motor Vehicle Fuel Tax, Diesel Fuel Tax, Use Fuel Tax, Alcoholic Beverage Tax; Cigarette and Tobacco Products Tax; Energy Resources, Emergency Telephone Users and Prepaid Mobile Telephony Services Surcharges, Hazardous Waste Taxes and Integrated Waste Management Fees, California Tire Fee, Covered Electronic Waste Recycling Fee, Lead Poisoning Prevention Fees, Oil Spill Fees, Fire Prevention Fee, Lumber Products Assessment Maintenance Fee, Marine Invasive Species Fee, Natural Gas Surcharge, Underground Storage Tank Maintenance Fee, Water Rights Fee, the Timber Yield Tax, and the Private Railroad Car Tax. Payers of these taxes and fees are subject to the same appeals process outlined for the sales and use taxes. The BOE also administers the Cigarette and Tobacco Products Licensing Act of 2003.

Settlement Authority. The BOE has been granted settlement authority to help resolve disputes involving sales and use taxes and the various special taxes noted above. The settlement program does not presently apply to disputes involving jet fuel tax, motor vehicle fuel tax, water rights fee, fire prevention fee, or to insurance tax disputes. Also, with the exception of the Childhood Lead Poisoning Prevention Fee, and the

Occupational Lead Poisoning Prevention Fee, disputes involving the Hazardous Substances Tax Law are administered by the Department of Toxic Substances Control.

The BOE's settlement authority is similar to that described above for FTB. However, for settlements in which the reduction of tax or fee exceeds $500, the law requires that a public record statement, available for public review, be placed in the Office of the Board's Executive Director.

3. EMPLOYMENT DEVELOPMENT DEPARTMENT

The EDD administers the Unemployment Insurance, Employment Training Tax, and State Disability Insurance programs. In addition, the EDD is responsible for ensuring that state personal income taxes are withheld from the wage and salary income of workers.

Unemployment Insurance. The Unemployment Insurance (UI) contributions are paid on the first $7,000 in wages paid to each covered employee in a calendar year. The contribution is paid by the employer and collected by the EDD. If the EDD assesses a deficiency against an employer, the taxpayer has 30 days to petition for reassessment. This petition is reviewable by an Administrative Law Judge and may be appealed to the California Unemployment Insurance Appeals Board (CUIAB).

Employment Training Tax. Employers are subject to pay an additional 0.1% for Employment Training Tax (ETT) on the first $7,000 in wages paid to each covered employee in a calendar year. The ETT rate is set by statute at 0.1% of UI taxable wages for the employers with positive UI reserve account balances and employers subject to Section 977(c) of the California Unemployment Insurance Code (CUIC).

State Disability Insurance. State Disability Insurance (SDI) contribution is paid by employees and covers approximately 16.4 million California workers. Employers are required to deduct the contributions from the wages of employees who are covered by the SDI program. Employees who work for multiple employers and earn income in excess of the wage base may file for a refund of excess contributions on the taxpayer's personal income tax return.

SDI benefits provide partial compensation for wages lost due to pregnancy, non-occupational illnesses or injuries.

Paid Family Leave (PFL) insurance is a component of SDI and extends partial wage compensation to cover individuals who take time off from work to care for a seriously ill child, spouse, parent, or domestic partner, or to bond with a new child. Effective July 1, 2014, PFL eligibility expanded to include a seriously ill grandparent, grandchild, sibling or parent-in-law.

Personal Income Tax Withholding. The EDD's Tax Branch administers the reporting, collection, and enforcement of Personal Income Tax (PIT) withholding. The "withholding" represents the money that employers are required to hold back from employees' wages. Amounts withheld are based on each employee's federal Form W-4 or EDD's DE-4, that are on file with each employer and that contain information regarding the tax status of the employee.

Settlement Authority. The EDD has the authority to settle certain civil employment tax disputes. The Settlements Program provides employers and the EDD an opportunity to avoid the cost of prolonged litigation associated with resolving disputed payroll tax issues (i.e., protests, appeals, or refund claims). When reviewing a settlement offer, the EDD considers the risks and costs to the State associated with litigating the issues, balanced against the benefit of reaching a settlement agreement. Final tax liabilities, cases still in process, cases involving fraud or criminal violations, and issues solely involving fairness or financial hardship are generally not eligible. Depending on the reduction of tax and penalties, settlement agreements are subject to approval by an Administrative Law Judge, the CUIAB, and the Attorney General before they can be finalized.

Employer's Bill of Rights. The EDD is committed to applying payroll tax laws in an equitable and impartial manner to ensure that employers have the right to:

- Courteous and timely service from EDD employees.
- Expect that information maintained by the EDD be kept confidential and not published or made available for public inspection. However, in certain instances, the law requires that this information be shared with other governmental agencies. When those instances occur, the EDD closely follows the law to protect rights to confidentiality.
- Call upon the EDD for accurate information and assistance and to have all questions answered.
- Receive a clear and accurate account statement if the EDD believes taxes are owed.
- Request a filing extension for up to 60 days. The law provides that the EDD may grant a filing extension where "good cause" is shown for a delay.
- Request a waiver of penalty by showing if "good cause" existed for filing a report or making a payment late.
- An impartial audit and a full explanation of EDD findings if the employer's business is selected for an audit.

- Discuss the issue with an EDD representative, supervisor, office manager, and the Taxpayer Advocate Office if the employer disagrees with an action taken by the EDD.

- Appeal certain actions to the CUIAB.

4. INSURANCE GROSS PREMIUMS TAX

Three agencies share responsibility for administering the Insurance Gross Premiums Tax - the Department of Insurance, the BOE, and the California State Controller's Office. The Department of Insurance issues permits for each class of insurance, processes returns, and audits taxpayers. The BOE issues assessments, processes petitions, and hears appeals. The State Controller's Office makes refunds and collects delinquencies and penalties.

5. LOCAL PROPERTY TAXES

Property taxes are assessed and collected at the local level for all property except that held by public utilities. Taxes for property held by public utilities is assessed and collected by the BOE.

Property is assessed annually as of 12:01 A.M. each January 1st. On this date, any taxes due become a lien on the property. Property owners can appeal the value of their property by filing an application for change in assessment with the Board of Supervisors or assessment appeals board between July 2 and September 15 each year (in some counties until November 30) for properties on the regular roll. Supplemental and escape assessments must be appealed within 60 days of the date the notice of change in assessment is mailed.

The Board of Supervisors of each county serves as a BOE for locally assessed property to assure comparable valuation of property. Assessment appeals go before the Board or the assessment appeals board if one exists in that county. Decisions of the county may only be appealed to court in certain limited circumstances: arbitrariness, lack of due process, abuse of discretion, failure to follow standards established by law, or for other specified reasons. Legal actions must be filed in Superior Court within six months after a claim for refund is denied by the county board.

The BOE oversees local assessment practices and develops standards for local assessment. In addition, the BOE periodically evaluates the performance of individual county assessors.

6. MOTOR VEHICLE TAXES

The Department of Motor Vehicles (DMV) administers the vehicle license, registration, and weight fees. The FTB is responsible for collecting delinquent vehicle license and registration fees. These fees are paid annually at the time of vehicle registration. The trailer coach (mobilehome) fee is administered by the Department of Housing and Community Development and is also paid annually. The Motor Carrier tax is levied by the Public Utilities Commission (PUC) and is paid quarterly. Motor Carrier tax appeals are filed with and heard before the PUC.

7. STATE CONTROLLER

The State Controller administers and collects the Estate Tax. This tax is levied as a portion of the federal tax. The tax is due on the date of death and becomes delinquent after nine months.

8. TAXPAYERS' BILL OF RIGHTS

In 1988, the California Taxpayers' Bill of Rights was enacted to set certain standards for tax administering agencies and provide taxpayers with protection against unreasonable action. Specific provisions of the Bill of Rights include:

- Establishment of Taxpayers' Rights Advocates in the FTB and the BOE;
- Requiring state agencies to respect the confidentiality of taxpayer information;
- Setting standards for hearing and appeals procedures;
- Defining conditions under which taxpayers can receive reimbursement for fees and expenses incurred while pursuing an appeal; and,
- Restricting the types of property and the conditions under which property may be sold to satisfy a tax levy.

In 1997, the California Taxpayers' Bill of Rights conformed California's income and franchise tax laws to the federal Taxpayers' Bill of Rights II and in so doing expanded the protection afforded to taxpayers. The California Taxpayers' Bill of Rights was extended to California's Sales and Use Tax Law in 1998 and to California's special taxes and fees in 1999. Some of the many provisions of the updated Taxpayers' Bill of Rights include the following:

- The burden of proving correctness of information provided on third-party information returns (e.g., Form W-2 or Form 1099) may shift to the FTB once the taxpayer complies with certain conditions;

- Interest attributable to unreasonable errors or delays caused by FTB or BOE staff performing a ministerial or managerial act may be abated;

- Taxpayers will not be charged additional interest if a deficiency assessment is paid within fifteen days of the notice date;

- A levy must be released if made in violation of FTB or BOE administrative procedures or if it is in the state's best interest to do so;

- Taxpayers' litigation costs and appeal expenses may be reimbursed;

- Taxpayers may sue the state for damages if FTB or BOE staff intentionally entice a taxpayer's representative to provide information about the taxpayer by offering to settle the representative's tax liability;

- Taxpayers qualifying to file a joint return may file such a return even though prior separate liabilities of the taxpayer's spouse may be unpaid;

- Payers of interest, dividends, or wages must include their telephone number in the information report they file;

- Delinquent taxpayers must be given annual notice of their delinquency;

- Notice of termination of an installment payment agreement as well as the basis thereof must be mailed to the taxpayer 30 days prior to termination;

- The FTB must make a reasonable attempt to contact a taxpayer if it cannot locate a taxpayer's account within 60 days of receiving payment;

- Expanded the suspension of the statute of limitations for making an assessment to apply to all motions to quash (dispute) a subpoena during the period the enforcement of the subpoena is in dispute, regardless of the party (third-party record keeper or taxpayer or the taxpayer's authorized representative) initiating the dispute;

- The FTB regulations enacted prior to January 1, 1998, are retroactive unless otherwise specified; and,

- Mail sent through the IRS-designated private delivery services are considered as if sent via the U.S. Postal Service.

In 1999, California conformed its personal income and corporation taxes to many of the provisions of the federal Taxpayer Bill of Rights III, enacted by Congress in 1998 as part of the Internal Revenue Service Restricting and Reform Act. A few examples of California's conformity to the federal Taxpayer Bill of Rights III include:

- Innocent spouse relief;
- Suspension of interests and penalties if the FTB does not notify a taxpayer about amounts owed;
- Prohibition against the FTB using financial status to determine unreported income while conducting audits;
- Requirement that the FTB notify taxpayers before notifying third parties regarding the determination or collection of the taxpayer's liability;
- Requirement that the FTB release a wage levy if the FTB determines, based on taxpayer-provided documentation, the tax is uncollectible;
- Limitation on the FTB selling principal residences to satisfy unpaid liabilities; and,
- Waiver of early withdrawal penalties when retirement plans are levied.

TABLE 9

TAX ADMINISTRATION RESPONSIBILITIES

Tax	Responsible Agency
Alcoholic Beverage Tax	
Tax Collection	Board of Equalization
Licensing & License Fee Collection	Department of Alcoholic Beverage Control
Cigarette and Tobacco-Related Products Tax	Board of Equalization

TAX ADMINISTRATION RESPONSIBILITIES (Continued)

Tax	Responsible Agency
Corporation Tax	Franchise Tax Board
Emergency Telephone User's Surcharge Rate Setting Tax Collection	 Department of General Services Board of Equalization
Employment Training Tax (ETT)	Employment Development Department
Estate Tax	State Controller
Franchise Tax	Franchise Tax Board
Gasoline, Diesel, Use Fuel Taxes	Board of Equalization
Insurance Gross Premiums Tax Permit Issuance Tax Assessment Refunds & Penalty Collection	 Department of Insurance Board of Equalization State Controller
Motor Vehicle License Fee Administration Collection (delinquencies only)	 Department of Motor Vehicles Franchise Tax Board
Motor Vehicle Registration Fee Collection (delinquencies only)	Department of Motor Vehicles Franchise Tax Board
Motor Carrier Tax	Public Utilities Commission
Personal Income Tax (PIT) Withholding	Franchise Tax Board Employment Development Department
Private Railroad Car Tax	Board of Equalization

TAX ADMINISTRATION RESPONSIBILITIES (Continued)

Tax	Responsible Agency
Property Tax Assessment Standards Development Public Utility Property Tax	 County Assessor's Office Board of Equalization Board of Equalization
Sales and Use Tax	Board of Equalization
State Disability Insurance (SDI)	Employment Development Department
Timber Yield Tax	Board of equalization
Unemployment Insurance (UI)	Employment Development Department
Weight Fees	Department of Motor Vehicles

CHAPTER 8

GLOSSARY OF TAX TERMINOLOGY

The terminology of taxation can be overwhelming. The purpose of this glossary is to promote familiarity with this terminology for those who do not work with tax issues every day. We have attempted to include the major terms and abbreviations used when discussing taxation issues.

The definitions provided in this glossary are brief. Please refer to the appropriate chapters of this Reference Book for a more thorough explanation of the terms and concepts.

COMMON ABBREVIATIONS

AGI	Adjusted Gross Income
AMT	Alternative Minimum Tax
AV	Assessed Valuation
CT	Corporation Tax
BIE	Business Inventory Exemption
BOE	Board of Equalization
CPI	Consumer Price Index (the U.S. Index)
CCPI	California Consumer Price Index
DOF	Department of Finance
DMV	Department of Motor Vehicles
EDD	Employment Development Department
FTB	Franchise Tax Board
HOE	Homeowners' Exemption
IRA	Individual Retirement Account

IRC	Internal Revenue Code
IRS	Internal Revenue Service
MIC	Manufacturer's Investment Credit
NOL	Net Operating Loss
OAL	Office of Administrative Law
PIT	Personal Income Tax
R&D	Research and Development Credit
R&TC	Revenue and Taxation Code
SDI	State Disability Insurance
TI	Taxable Income
TPZ	Timberland Production Zone
UBI	Unrelated Business Income
UI	Unemployment Insurance
VLF	Vehicle License Fee

GLOSSARY OF TAX TERMINOLOGY

A

ABILITY TO PAY	Tax principle that ties the burden of taxation to the taxpayer's economic circumstances. Taxation based on "ability to pay" is an alternative to taxation based on benefits or services received.
ACCELERATED WRITE-OFF	Computation of an income tax deduction that reduces taxable income by allowing the deduction to be taken earlier than the rules would ordinarily permit. For example, accelerated depreciation allows deductions for the wear and tear of property to be taken over a shorter period than the accepted useful life of the asset.
ACQUISITION VALUE	Property tax concept referring to the value of property when acquired. Acquisition value is embodied in Proposition 13. This is an alternative to the "ad valorem" concept. This term was used by the California Supreme Court in its Amador Valley decision and does not appear in Proposition 13 or related statutes.
ADJUSTED GROSS INCOME (AGI)	Total gross income reported for income tax purposes, less certain specified deductions if applicable. Typically, California AGI equals federal AGI adjusted for differences in tax treatment of certain types of income (e.g., state income tax refunds, social security income, interest on state and municipal bonds from other states, etc). (See Chapter 2B for complete list of the components of AGI.)
AD VALOREM	According to value. Before Proposition 13, the property tax was considered an ad valorem tax, as it was based on current value of the property instead of its acquisition value. Currently, personal property tax is ad valorem, or based on current value.

AD VALOREM ASSESSMENT
Special assessment levied for operating purposes by many special districts, particularly water districts.

The assessment is usually levied only on the value of land or land and improvements (not personal property).

ALTERNATIVE MINIMUM TAX (AMT)
An additional tax which must be computed by personal income and corporate taxpayers that take advantage of certain tax preferences. If AMT liability exceeds regular tax liability, the excess must be paid in addition to the taxpayer's regular tax liability. The purpose is to ensure that taxpayers that take advantage of special tax preferences pay minimum tax on income receiving preferential treatment. Patterned after the AMT in federal law.

AMORTIZATION
An accounting procedure used to reduce the value of an intangible asset by periodic charge-offs against income. For tax purposes, amortization is similar to depreciation. Also refers to the principal reduction of an outstanding debt through regular payments of interest and principal.

APPORTIONMENT
Method by which California determines how much of a multi-state or multi-national corporation's total net profits are subject to California income taxes. (See Chapter 2D.)

APPROPRIATION
An authorization of money from a specific fund to a specific agency or program for expenditures or to incur obligations for a specified purpose and period of time. The amount expended may be less than the amount appropriated.

APPROPRIATIONS LIMIT
Maximum amount of tax proceeds that may be appropriated in a fiscal year by state or local government under Article XIIIB of the California Constitution (Proposition 4 of 1979). (See Chapter 5.)

ARTICLE XIIIA
The article of the California Constitution added by Proposition 13 of 1978, as amended by Proposition 26 (2010).

ARTICLE XIIIB	The article of the California Constitution added by Proposition 4 of 1979 (Appropriations Limit).
ARTICLES XIIIC AND XIIID	The articles of the California Constitution added by Proposition 218 of 1996, as amended by Proposition 26 (2010).
ASSESSED VALUE	The measure against which the property tax rate is applied to compute the tax. Generally it is market value, unless a standard other than market value has been established by the Constitution for real property or by statute for personal property.
ASSESSMENT ROLL	A countywide list of all taxable property. It identifies each property, its owner, and its value for assessment purposes.
ASSESSMENT YEAR	For property tax law, the period beginning with a lien date and ending immediately prior to the succeeding lien date. Under current law, the assessment year begins on January 1 and is coterminous with the calendar year.
AVERAGE DAILY ATTENDANCE (ADA)	A formula for measuring the full time equivalent number of students attending school. Most state aid to schools is based on ADA. An example of an ADA calculation for a regular full-time elementary school is the number of student-days of attendance divided by the number of actual school days.

B

BASE	For property tax allocation purposes, the amount of property tax revenues received in the prior year (See also 'Increment'.) (For a different usage, see 'Tax Base'.)
BASE YEAR VALUE	The full cash value of real property in 1975-76, or in any subsequent year upon a purchase, change in ownership, or new construction. Under Proposition 13, assessed value for property tax purposes may increase by no more than 2% per year.

BASIS	For purposes of income taxes, basis generally means the cost of an asset to the taxpayer acquiring the property. It is used for calculating depreciation and capital gains and losses when the property is ultimately disposed of. Most inherited property is given a basis of its fair market value on the date of inheritance. Property acquired by gift generally has a basis equal to that of the donor.
BENEFITS RECEIVED	Tax principle that those who receive the benefit of government services should pay for them. Alternative to "ability-to-pay".
BOARD OF EQUALIZATION (BOE)	State revenue agency, responsible for administration of the sales and use tax and other special taxes. The BOE also oversees local administration of the property tax. The Board is directed by five members: The State Controller and four members elected by the voters. The BOE is a quasi-judicial body and serves as the appellate body for income and franchise tax disputes filed with the Franchise Tax Board.
BONDING POWER	The right of state or local government to borrow money by issuing bonds.
BRADLEY-BURNS	The 1955 act that allows a uniform 1.25% sales tax to be imposed by cities and counties. This tax is collected by the BOE and returned to local jurisdictions based on the location of the taxed transaction.
BROAD-BASED TAX	A tax levied upon a large tax base. Often such a tax is paid by the vast majority of the population. An example is the sales and use tax.
BUSINESS INVENTORIES	Personal property of business that is held for sale or lease. Exempted by the Legislature from property taxation beginning in 1980-81.

C

CALIFORNIA CONSUMER PRICE INDEX (CCPI)	Measures inflation in California and is calculated by the California Department of Industrial Relations.
CAPITAL ASSET	Real property, personal property, stocks and bonds and other property held by a taxpayer. Examples of property that are not considered capital assets include copyrights and inventory held for sale.
CAPITAL EXPENDITURES	Expenditures for capital assets such as buildings, roads, airports, land, etc.
CAPITAL GAINS	Income or profit from the sale of capital assets.
CAPITAL OUTLAY	Represents an appropriation for any acquisition of land or other real property, major construction, improvements, equipment, designs, plans and specifications, lease purchase agreement, and the request for and exercise of a purchase option.
CARRYOVER	In cases where a tax benefit from a credit, deduction or other write-off exceeds the allowable amount for a particular year, carryover permits the excess amounts to be preserved and applied against income or tax liability in subsequent tax years.
CARRYBACK	Allowed for net operating losses and certain credits. Permits net losses in excess of income or credits in excess of tax liability to be "carried back" to earlier tax years, so that tax for those years may be recomputed and refunds may be claimed.
CHANGE OF OWNERSHIP	Term used in Proposition 13. Refers to a transfer of real property. Upon a change in ownership, real property is reassessed to its full cash value as of the date of transfer. Several exceptions apply including inter-spousal transfer of a principal residence to a surviving spouse, or certain transfers between parents and children, grandparents and grandchildren, and registered domestic partners.

CHECK-OFF CONTRIBUTIONS	Donations to specified nonprofit organizations or activities that taxpayers are permitted to make on their state tax returns. Taxpayers remit the amount of voluntary contributions in addition to amount of tax due or as an application of a refund due on the return. Often called "check-offs".
CLEAN-UP BILL	Technical follow-up bill that often follows a major piece of legislation. Usually deals with erroneous cross-references, chaptering problems, legislative clarification of misinterpretations of the original bill, and other corrections.
CONSUMER PRICE INDEX	A measure of inflation. Can either refer to the United States Consumer Price Index calculated by the United States Department of Commerce or the California Consumer Price Index (CCPI) calculated by the Department of Industrial Relations.
CONSUMPTION TAX	Generic term for a tax on commodities and transactions where the burden falls on the consumer in the price paid for goods and services, such as a sales tax.
CORPORATE FRANCHISE TAX	A tax imposed upon a corporation's right to do business in California. It is measured by a corporation's net earnings, but not imposed based on income.
CREDIT	Amount that can be subtracted from the actual amount of tax owed, usually in the income tax. Credits represent tax expenditures aimed at benefiting specific groups (e.g., senior credit) or inducing certain behavior (e.g., an investment tax credit).

D

DEDUCTIONS (AGI)	Amounts subtracted from adjusted gross income to yield the taxable income upon which income tax liability is based.

DEFERRAL	Postponement of paying taxes because of specific provisions in the tax law. For example, the Senior Citizens Property Tax Postponement Program allows low and moderate income senior citizens to defer payment of property taxes until they sell their home, die, or move.
DEPENDENT	In income tax law, a relative of the taxpayer (child, stepchild, parent, stepparent, sibling, etc.) for whom the taxpayer provided over half of his or her support during a calendar year. Can also include a non-relative who meets the support rule and who lives in the taxpayer's home.
DEPLETION	Deductions permitted to owners or certain lessees of natural resources (such as oil or gas wells or timber property) to recover the costs of the resource as it is extracted, harvested or otherwise wasted or diminished. Comparable to depreciation for real or personal property or amortization of intangibles.
DEPRECIATION	A decrease in the value of a capital asset due to wear, use, action of the elements, inadequacy, accident, or obsolescence. An income tax deduction for depreciation allows a write-off for a capital expenditure that roughly coincides with the decrease in value of the asset over time.
DIRECT TAX	Generic term for a tax that is not easily shifted or passed on to some other entity by the entity on whom it is levied; for example, the personal income tax.
DEPARTMENT OF FINANCE (DOF)	The DOF serves as the financial branch of the Governor's administration. The DOF prepares the Governor's proposed budget and publishes other budget documents, provides formal revenue estimates, and expresses the Governor's position on fiscal matters before the Legislature.

E

EARMARKED FUNDS	Revenue designated by statute or the Constitution for a specific and restricted purpose.
EARNED INCOME	Includes wages, salaries, and fees for services rendered. In most cases, does not include distribution of profits, such as dividends, or earnings on an investment, such as interest.
EDUCATIONAL REVENUE AUGMENTATION FUND (ERAF)	The funds created to receive property tax revenues redirected from cities, counties, and special districts to schools and community college districts. The permanent redirection of property taxes reduces the state's Proposition 98 funding obligation to K-14 school districts. The revenue loss to local governments is mitigated by receipt of a half-cent sales tax for public safety purposes.
EFFECTIVE TAX RATE	Percentage of market value, income, or other tax base that the tax liability represents. Often differs from the nominal tax rate due to progressive tax rates.
ELASTICITY	As applied to taxes, the degree to which growth in revenue from a tax corresponds to changes in income.
EMPLOYMENT DEVELOPMENT DEPARTMENT (EDD)	State agency that administers unemployment insurance and disability taxes and personal income tax withholding.
EQUITY	Fairness or justice. It also refers to the value of property minus the liens and other claims against the property that offset its value. If the claims against a property exceeds its value, this is described as "negative equity".
ESTATE TAX	Generic term for a levy on the right to transfer property upon the death of the owner. Once the value of the estate is determined, a tax rate is applied to this base.

EXCISE TAX	Generic term for a levy on the manufacture, sale, or use of a particular commodity or service, for example, liquor, cigarettes, or telephone services. Excise taxes are levied on a per-unit basis (e.g., per gallon, per pack, per minute).
EXCLUSION	The part of a tax base that is excluded by law when computing the tax. For example, Social Security income is an exclusion for state income tax purposes.
EXEMPTIONS	Status of specified people, property, institutions, or sources of income or wealth not subject to taxation.
F	
FEDERAL CONFORMITY	Degree to which a state's income tax base and computation corresponds to federal income tax laws. California utilizes a process of selective federal conformity.
FISCAL COMMITTEE	Designated committee in each house of the California Legislature that hears any bill with a fiscal impact on the state. In both the Assembly and the Senate, this committee is the Appropriations Committee.
FISCAL YEAR	Twelve-month period for budgeting, accounting or tax collection purposes. May differ from calendar year. The state and local governments' fiscal year is July 1 to June 30. The federal fiscal year is October 1 to September 30.
FRANCHISE	A special privilege extended by the government to a private enterprise. The corporate franchise tax is levied on the franchise for the privilege of doing business in California and is measured by net income.
FRANCHISE TAX BOARD (FTB)	State agency responsible for administering the personal income and corporation tax laws. The three Board members include the State Controller, the Chair of the Board of Equalization, and the Director of the Department of Finance.

FULL CASH VALUE	The highest amount a willing and knowledgeable seller of a property could obtain from a willing and knowledgeable buyer, neither being under any compulsion to buy or sell. Same as "market value" or "fair market value".

G

GROSS INCOME	All sources of income except exempt income. Gross Income is the starting point for computing taxable income prior to adjustments and deductions.
GROSS PREMIUMS	All insurance premiums received by an insurer. Used to compute the insurance tax after return premiums are subtracted.

H

HEAD OF HOUSEHOLD	An unmarried individual whose home is the principal place of abode of a son, stepson, daughter, stepdaughter, father, mother or any other dependent person for whom a dependent credit may be claimed. A head of household may also be someone who maintains any household as the principal place of abode for a father or mother provided that such parent qualifies a the taxpayer's dependent.
HIDDEN TAX	Generic term for an indirect tax that is incorporated into the price of goods and services and is therefore not apparent when paid. An example is the fuel tax which is included in the price of gas at the pump.
HOMEOWNERS' EXEMPTION	A constitutionally provided property tax exemption for homeowners. The exemption reduces the assessed value of a principal residence by $7,000 and in doing so reduces the property tax liabilities of most homeowners by approximately $70 per year.

IMPACT	The individual or business firm with the legal liability to initially pay a tax, whether or not it actually bears the final burden. (See also 'Incidence'.)
INCIDENCE	Individuals or groups that bear the actual burden of a tax.
INCOME	Money or other consideration received during a given period by an individual, corporation, or other entity for labor or services or from property, investments, or other form of compensation.
INCOME TAX	A tax levied on the income of individuals and/or corporations; may be applied to gross (total) income or net income (gross income less deductions for certain expenses).
INCREMENT	For local property tax allocation purposes, the amount of property tax revenue generated by growth in assessed valuation from one year to the next. (See also 'Base' for another usage, see 'Tax Increment Financing'.)
INDEXING	Method by which tax rates, brackets, exemptions or benefits are automatically adjusted for inflation.
INFLATION	An increase in the price level or, conversely, a decline in the purchasing power of money.
INHERITANCE TAX	Generic term for a tax levied upon the value of property that individual beneficiaries receive from an estate of a deceased person. The voters of California repealed the State Inheritance Tax in June 1982. (See also 'Pickup Tax' and 'Estate Tax'.)
IN-LIEU TAX	Tax levied in place of another tax or group of taxes. May refer to provisions sheltering a class of taxpayers from other taxes. For example, the Constitution provides that the California on insurers tax is imposed in-lieu of other state taxes on insurers and their property.

INTANGIBLE PROPERTY	Assets that cannot be perceived by the senses, such as the goodwill of a business, customer base, or the workforce of a business.
INTERACTION	Changes in the liability associated with one tax that affect the liability associated with another tax (e.g., a reduction in property taxes will likely increase income taxes, because itemized deductions for property taxes will be reduced).

J

JOINT RETURN	One personal income tax return filed by both members of a married couple.
JURISDICTIONAL CHANGE	Procedure by which a city, county or special district transfers functions or changes boundaries; by which a new local agency forms; or by which two or more local agencies consolidate. Jurisdictional changes may result in changes in the allocation of property tax revenues.

L

LEVY	The imposition or collection of a tax. Also may refer to the amount of tax imposed.
LICENSE TAX	A tax on the right to do something, such as the sale of liquor, hunting, marriage license, or the right to operate a business.
LIEN	A claim on property to satisfy a debt. Some taxes result in a lien against property.
LIEN DATE	The time when the taxes become a lien on property and the date on which property is valued for tax purposes. Property taxes become a lien at 12:01 a.m. on January 1 preceding the fiscal year for which taxes are collected for both locally-assessed real property and state-assessed property.

LOCAL ASSISTANCE	Portion of the state budget devoted to inter-governmental expenditures and shared taxes. State operations and capital outlay comprise the remainder of the state budget.
LUXURY TAX	Generic term for a tax imposed upon articles not considered essential to a normal standard of living. Currently there are no luxury taxes in California law, although the federal government periodically adopts various luxury taxes.

M

MARGINAL TAX RATE	Income tax rate to which the taxpayer's highest dollar of income is subject.
MARKET VALUE	Full, fair market value of an asset. Equals "full cash value" for Proposition 13 purposes in the property's "base year".
MARRIAGE PENALTY	Feature of the federal income tax structure that cause the combined tax on two single people with equal incomes to be less than the tax on a married couple composed of the same two people. The California personal income tax does not impose a marriage penalty.
MINIMUM FRANCHISE TAX	Minimum amount of tax imposed annually on any corporation under the California bank and corporation franchise tax. The minimum franchise tax is currently $800. There is no minimum franchise tax imposed on corporations their first year of incorporation. Limited partnerships and limited liability companies also pay an annual tax in an amount equal to the minimum franchise tax.

N

NET INCOME	Income remaining from earnings gains profits after all allowable costs, expenses, losses, and allowances for depreciation have been deducted.

NET OPERATING LOSS (NOL)	Occurs when allowable deductions exceed gross income computed under the law in effect for the loss year. Both state and federal income tax law provide for the carryover of NOLs, although specific provisions vary.
NEW CONSTRUCTION	Term used in Proposition 13. New construction is reappraised at its full cash value on the date it is complete and available for use.

O

ORDINARY INCOME	All income other than capital gain.

P

PAYROLL TAX	Generic term for a tax based on the payroll of a business. California's unemployment insurance tax is an example.
PER CAPITA	Amount per individual.
PERSONAL PROPERTY	Movable property and equipment, as opposed to immovable property such as land and buildings.
PICKUP ESTATE TAX	A California estate tax enacted after the elimination of the inheritance tax in 1982. It is imposed up to the level of the maximum state inheritance tax credit allowed against the federal estate tax. It does not change the taxpayer's combined state and federal estate tax liability but collected a portion of the federal state tax, in effect, to California. Commencing in 2005, the federal credit for state death taxes was fully repealed. Therefore, the California estate tax is inapplicable.
PIGGYBACK	Generic term for a tax levied as a percentage of the liability imposed by another tax. There are no California piggyback taxes.
POSSESSORY INTEREST	Interest of a lessee in government-owned property. Lessees pay property taxes related to possessory interests.

PROGRESSIVE	Tax structure or policy in which either persons with high incomes pay a larger percentage of their income in tax than persons with lower incomes or where persons with high incomes receive a smaller share of tax relief than persons with lower incomes.
PROPERTY TAX	A tax on all real and tangible property located in the state and not specifically exempt.
PROPOSITION 4	Initiative constitutional amendment approved on the November 1979 ballot. Imposed limits on allowable appropriation of tax revenues by state and local governments. Added Article XIIIB to the California Constitution.
PROPOSITION 13	Initiative constitutional amendment approved on the June 1978 ballot. Limited property tax rates to 1% of assessed value, limited the growth in assessed valuation to a maximum of 2% annually, placed restrictions on the imposition of new taxes. Added Article XIIIA to the Constitution.
PROPOSITION 26	Initiative constitutional amendment approved on the November 2010 ballot. Expanded the definition of a "tax" to include many state and local government fees, levies, and charges previously classified as "fees." Also provided that any change in state statute that results in any taxpayer paying a higher tax must be passed by a two-thirds vote of the Legislature.
PROPOSITION 30	Initiative constitutional amendment approved on the November 2012 ballot. Temporarily increased the statewide sales and use tax rate by ¼ cent from January 1, 2013 through the end of 2016. Also temporarily increased the personal income tax rates for high-income individuals for taxable years beginning on or after January 1, 2012, and before January 1, 2019.

PROPOSITION 39	Initiative statute approved on the November 2012 ballot. Required most multistate businesses to utilize a "single sales factor" apportionment method for determining their taxable income in California for taxable years beginning on or after January 1, 2013.
PROPOSITION 62	Initiative statute approved on the November 1986 ballot. The measure was intended to require a popular vote for any new locally-imposed tax or any increase in an existing locally-imposed tax. It was embroiled in a legal controversy until December 1995, when the California Supreme Court upheld its constitutionality.
PROPOSITION 98	Initiative statute and constitutional amendment approved on the November 1988 ballot. Established minimum funding guarantee for schools and community colleges, allocated a portion of state revenues in excess of the appropriations limit to education.
PROPOSITION 111	Legislative initiative that substantially modified the provisions of Propositions 4 and 98. (See Chapter 5 for details.)
PROPOSITION 218	Initiative constitutional amendment approved on the November 1996 ballot. Sets forth voter approval requirements for the imposition of special and general taxes by local governments.

(FOR OTHER PROPOSITIONS, SEE APPENDIX TO CHAPTER 4 - LOCAL PROPERTY TAX.)

R

REAL PROPERTY	The ownership of, claim to, possession of or right to the possession of land and permanently attached improvements, such as buildings. Does not include "personal property" such as furniture and equipment.

REGRESSIVE TAX	A tax that imposes a higher burden on lower-income taxpayers than it does on higher-income taxpayers. Opposite of "progressive".
RETURN PREMIUMS	Insurance premiums paid in part or in full by persons who have canceled their policy before its expiration date.
REVENUE LIMIT	A limit on the increase in the aggregate amount of revenue that can be raised from one year to the next. For school finance, this is a school district's income from state and local sources, exclusive of categorical aid.

S

SALES TAX	A tax levied on the gross receipts from the retail sale of tangible personal property unless otherwise exempted.
SECURED ROLL	That part of the local property tax assessment roll that contains real property where the taxes are adequately secured by a lien.
SEVERANCE TAX	Generic term for a tax imposed on the extraction of natural resources, usually based on volume or value of a resource extracted or harvested. SIMILAR TO YIELD TAX.
SITUS	Site or place. Applies to the location of property for the purpose of determining which government agency may impose taxes on it and which government agency receives tax revenue from it.
SPECIAL ASSESSMENT	A tax for local improvements imposed only on the properties benefited.
SPECIAL TAX	Term used in Proposition 13 and further defined in Proposition 218. Special taxes are those imposed and restricted for specific, rather than general, governmental purposes. Local agencies may impose special taxes upon approval of two-thirds of those voting on the measure.

SPILLOVER BENEFITS	Benefits enjoyed by those not directly paying for them.
SPLIT ROLL	In the context of property taxes, means assessment or taxation of a certain class of property in a manner different than other property. Could refer to a split assessment ratio, a split tax rate, or a split exemption level. Does not currently apply in California.
STANDARD DEDUCTION	A flat amount that all income taxpayers are allowed to deduct in lieu of claiming itemized deductions. Intended to approximate expenses that reduce the taxpayer's ability to pay. A feature of federal income tax law; California uses a personal credit.
STATE ASSESSED PROPERTY	Property that crosses jurisdictional boundaries and is assessed by the Board of Equalization, rather than local county assessors. State assessees are primarily utilities and railroads.
STATE MANDATED COSTS	Costs incurred by local agencies or schools resulting from a new program, or higher level of service for an existing program, mandated by state legislation or an executive order. Under Proposition 4 (Article XIIIB), the state is required to reimburse local agencies for these costs, with specified exceptions.
S CORPORATIONS	Closely held corporations (i.e., they have a limited number of shareholders) that receive special tax treatment under both federal and state law. They are named after a specific section of federal tax law (Subchapter S of Subtitle A of the Internal Revenue Code).
SUBVENTION	Money transferred from the state to local government.
SUPPLEMENTAL ROLL	An additional assessment roll that contains property that changes ownership or is newly constructed after the regular January 1 lien date. Enacted in 1982.

SURPLUS	Commonly refers to the carryover balance in the state's General Fund at the start of a new fiscal year, or to reserves held by the state for unforeseen contingencies. Also known as the Special Fund for Economic Uncertainties.
SURTAX	An additional tax rate added onto the rate of an existing tax.

T

TANGIBLE PERSONAL PROPERTY	Material assets such as household goods or business equipment that are readily movable and are not permanently attached to real property.
TAX	A compulsory payment required by a government.
TAX BASE	The part of the economy or the portion of the population against which a tax is levied or measured.
TAX BURDEN	The impact of a tax, usually expressed in tax dollars per capita or dollars per amount of personal income. For an individual taxpayer, tax dollars per measure of income (household, AGI, other).
TAX DEEDED PROPERTY	Property on which property taxes are delinquent and which has been deeded to the state until the time it is sold for back taxes or redeemed by the owner.
TAX EXPENDITURE	A component of the tax law that deviates from the basic structure of the tax (e.g., an exemption, exclusion, deduction, credit, and/or deferral). The term "tax expenditure" is intended to reflect foregone revenues resulting from the preferential treatment.
TAX INCREMENT FINANCING	A method used by redevelopment agencies to secure bonds, whereby property tax revenue from an increase in value in property over a base amount is used to pay off the bonds.

TAX LEVY	A bill in the California Legislature that imposes a state tax, repeals a state tax, or otherwise changes in any material way the rate, base, or burden of a state tax. The Legislative Counsel determines whether a bill is a tax levy. Special rules regarding legislative deadlines and effective dates apply to tax levies.
TAX RATE	The ratio of the tax to the tax base. For property tax purposes, the rate is applied to assessed value to determine the amount of the tax. For income and franchise tax purposes, the rate is applied to taxable income to determine the amount of the tax.
TAX RATE AREA	Geographic area that is served by the same combination of governmental units and has the same property tax allocation factors.
TIDELANDS REVENUE	Revenues earned by the state from sale of oil extracted from state tidelands (between shoreline and three miles out into the Pacific Ocean). Primarily located adjacent to the city of Long Beach.
TIMBER YIELD TAX	A tax imposed in California in lieu of the property tax on standing timber. Tax applies when timber is harvested and is based on the value of the timber when cut.
TIMBERLAND PRODUCTION ZONE (TPZ)	Ten-year land use restriction on growing and harvesting timber in exchange for preferential property tax assessments for timberland.

U

UNITARY APPORTIONMENT	Formula by which the share of a corporation's net income subject to tax in California is determined.

UNRELATED BUSINESS INCOME (UBI)	Income earned by tax-exempt nonprofit organizations that is not related to the organization's exempt purpose but is derived from a trade or business activity that is regularly carried on by the organization. UBI is subject to income tax, even though the organization's exempt-purpose income is not.
UNSECURED ROLL	That part of the assessment roll, consisting largely of business personal property, on which the taxes are not secured by a lien on real property.
UNSECURED TAX RATE	Prior year's secured roll tax rate, which is levied against current year's unsecured roll.
USE TAX	A tax on goods purchased outside the state and delivered to California for use in the state. A use tax is designed to remove inequities between purchases made within and those made outside the state. Companion to the sales tax, the burden for payment is with the purchaser.
USER CHARGE	A charge levied for use of a government-provided commodity or service. For example, day-use fees at a marina or park.
VALUE ADDED TAX (VAT)	Generic term for a tax levied on a product at each stage of its manufacture or processing based on the increase in value attributable to the particular process. It is similar to a sales tax, but is paid at each stage of production and marketing and is incorporated into the final purchase price rather than added on at the time of sale. Used in many other countries, but not in the United States
VEHICLE LICENSE FEE	The vehicle license fee (VLF) is an annual fee on all vehicles registered in California.

W

WAIVER (DISCLAIMER)	Refers to a boilerplate statement, commonly at the end of a bill, that "waives" another statutory requirement, such as an automatic sunset or reimbursement of any state mandated costs created by that bill. If their rights to reimbursement are not waived, local governments may file claims for reimbursement of state-mandated costs and/or state-initiated revenue losses via Board of Control.
WATER'S-EDGE COMBINATION	Method of combining the income of multinational corporations to determine the amount of net income taxable by California. The "water's-edge" is defined as the 50 states of the United States and specified "tax havens". This method is an alternative to worldwide combination.
WELFARE EXEMPTION	Property tax exemption available for property owned by nonprofit charitable, educational, religious, and scientific organizations and that meets other tests.
WILLIAMSON ACT	Statutory provision for reduced property tax assessments on agricultural and other open space property in return for a contractual agreement that the property must be maintained in agricultural use for at least 10 years.
WORLDWIDE COMBINATION	Method of combining the income of multinational corporations to determine the amount of net income taxable by California. Corporations must use worldwide combination if they do not elect water's-edge combination.

Y

YIELD TAX	Generic term for a tax levied on the value of a resource at the time of its extraction or harvest. California's timber yield tax is an example. SIMILAR TO SEVERENCE TAX

Z

ZERO BRACKET AMOUNT (ZBA)	A previous feature of state and federal income taxes. A flat deduction given to all taxpayers, the amount of which varied by tax filing status. The ZBA replaced the standard deduction and was incorporated in the tax tables, but was repealed and the standard deduction reinstated in 1987.
ZERO SUM	With a fixed pool of money, if one party receives an increased share, other parties must lose a commensurate amount.

CHAPTER 8
GLOSSARY OF TAX TERMINOLOGY