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Guest Commentary



Is It A Structure or Fixture?

By Rick Auerbach

While the business and assessment communities are working together in many areas to improve and simplify the assessment of business personal property and fixtures, one continuing source of frustration for both groups is double assessments between real and personal property.

Traditionally, real property appraisers, in response to building permits, will visit a business location and value those items they perceive to be structural and should be added to the value of the building as new construction. In addition, business owners are required to file a Business Property Statement (BOE 571L) and are asked to report their costs of new construction on Schedule B. This schedule asks them to divide these costs appropriately between leasehold improvements, which will be picked up as fixtures by the personal property staff, and structures, which ideally were what the real estate appraiser assessed.

In a perfect world, everything would be divided properly and each item would be detailed in such a manner to clarify whether it should be a fixture or structural item, and no duplication would occur. The reality is that this is a very complex and confusing area, as evidenced by the instructions for the 571L, listing 26 items that should be fixtures and 27 items that should be structures. This list is only major categories and often does not cover the specific items added by a business.

It is clear that given the existing process, a double assessment of some items is very possible. The Los Angeles County Assessor's Office has taken several steps to stop many of these potential double assessments before they occur and to resolve them if



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discovered. On large valued new construction, we are assigning experienced auditor appraisers to work directly with the real property cost appraisers and jointly visit the site to value the new construction. At that time, it will be decided what should be assessed as structures or fixtures, and this team will work with the tax professionals of that business to report these items that way on their 571L to eliminate potential double assessments.

Often, potential double or escape assessments are discovered when the returns of the business are audited. We conduct a formal coordinated review whenever a large potential audit deficiency is found, concern exists on the part of the auditor or their supervisor that a double assessment has occurred, or if the business owner suspects a double assessment has occurred. The auditor, who first reviews the subject property's parcel jacket to discover any duplicate or potential escape assessments, initiates this process. Any remaining items of concern are listed on a special form that is given to the real property appraiser for investigation. The results are signed off by real estate appraisers and their supervisors, and discussed with the auditor before any decision is reached.

What other steps can be taken to minimize this problem? Areas that we are working on include better communication and understanding between our real estate and personal property divisions. We plan in-service training courses on differences between structure and fixture items, as well as some cross-training on how each division works. Additional detail will also be noted in the real property file jackets on what items were assessed. Industry can help improve this process by listing the detail of new construction on the 571L and in books and records. Often, lump sums only are shown and that can make it difficult to accurately classify property and avoid duplication.

Will the steps taken in Los Angeles County, and similar procedures in other counties, solve this problem? The answer: Not completely, but Los Angeles County will continue to work on ways to minimize this problem and to simplify and standardize the personal property assessment process.