

ASSEMBLY BILL

No. 315

Introduced by Assembly Member McDonald

February 8, 1995

An act to add Section 401.6 to the Revenue and Taxation Code, relating to taxation.

LEGISLATIVE COUNSEL'S DIGEST

AB 315, as introduced, McDonald. Property taxation: cost approach valuation: entrepreneurial profit.

Existing property tax law requires that all property subject to taxation be assessed at its full value.

This bill would establish, for the case in which a county assessor determines the full value of property pursuant to the cost approach method, a rebuttable presumption, as specified, that entrepreneurial profit, as defined, does not exist with respect to that property.

Vote: majority. Appropriation: no. Fiscal committee: no. State-mandated local program: no.

The people of the State of California do enact as follows:

1 SECTION 1. Section 401.6 is added to the Revenue
2 and Taxation Code, to read:
3 401.6. (a) In any case in which the cost approach
4 method is used to value property for purposes of taxation,
5 it shall be rebuttably presumed that entrepreneurial
6 profit does not exist. This presumption may be rebutted
7 by any of the following:

1 (1) Evidence that the subject property is of a type that
2 is typically associated with entrepreneurial profit.

3 (2) Evidence of market-derived entrepreneurial
4 profit.

5 (3) Evidence of the presence of entrepreneurial profit
6 that has not been completely offset by physical or
7 economic obsolescence.

8 (b) For purposes of this section:

9 (1) "Entrepreneurial profit" means either of the
10 following:

11 (A) The amount a developer would expect to recover
12 with respect to a property in excess of the amount of the
13 developer's costs incurred with respect to that property.

14 (B) The difference between the fair market value of
15 a property and the total costs incurred with respect to
16 that property.

17 (2) "Total costs" means both direct costs of
18 construction, including, but not limited to, the costs of
19 land, building materials, and labor, and indirect costs of
20 construction, including, but not limited to, the costs of
21 construction capital and permit fees.

22 (3) "Market derived" means derived from an analysis
23 of recent sales, occurring within the market within which
24 the subject property is located, of properties similar to the
25 subject property, and a comparison of the sales prices
26 obtained in those recent sales with the total costs incurred
27 with respect to the sold properties.

