

Assembly Bill No. 315

CHAPTER 399

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

[Approved by Governor August 10, 1995. Filed with
Secretary of State August 11, 1995.]

LEGISLATIVE COUNSEL'S DIGEST

AB 315, 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, in the case in which a county assessor determines the full value of special use property, as defined, pursuant to the cost approach method, prohibit the assessor from adding a component for entrepreneurial profit, as defined, unless he or she has certain evidence of that component.

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

SECTION 1. Section 401.6 is added to the Revenue and Taxation Code, to read:

401.6. (a) In any case in which the cost approach method is used to value special use property for purposes of taxation, the assessor shall not add a component for entrepreneurial profit unless he or she has market-derived evidence that entrepreneurial profit exists and has not been fully offset by physical deterioration or economic obsolescence.

(b) For purposes of this section:

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

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

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

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

(3) "Special use property" means a limited market property with a unique physical design, special construction materials, or a layout that restricts its utility to the use for which it was built.

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