

An Introduction to Property Tax and Common FAQs

LONG BEACH, CA, UNITED STATES, January 2, 2023 /EINPresswire.com/ -- Understanding [property tax](#) for California real estate can be challenging. Review the following overview of California property taxes and FAQs to familiarize yourself with the basics and learn how working with a real estate accounting firm can help maximize [credits and incentives](#) during tax time.



Property Tax

Overview of Property Taxes in California

In 1978, California adopted Proposition 13, a law limiting the amount of property taxes municipalities can collect. This proposition also changed how properties were valued, requiring assessments only upon completion of new construction or when a property's ownership changes.

Almost all property is taxable in California. The state can tax real and personal property. Real property refers to the ownership of, claim to, or right to the possession of land. It also includes improvements, such as buildings, fixtures, structures, and fences made to the land.

For instance, if you own an apartment building in Los Angeles, your real property is the building itself, along with any fences or fixtures you add to the property. All of this property is subject to property taxes.

The California State Board of Equalization (BOE) states that business personal property may also be taxable. Tangible business personal property, such as office furniture, supplies, tools, and machinery, is typically taxable, while business personal property, like store inventory, is 100% exempt from taxation.

The current tax rate in California is 1% of the property's assessed value plus the rate needed to pay for voter-approved bonded indebtedness. Assessed values also cannot increase by more

than 2% each year unless it changes ownership or has improvements added.

California Property Tax FAQs

The following are common questions about California property taxes and useful answers to help you understand your potential tax liability.

What is business personal property tax?

Business personal property tax is a tax on tangible personal property that a business owns or leases. The county bases the tax on the assessment of a business's personal property statement. The owner files a personal property statement for assets on a property on the assessment date.

What's the difference between real property tax and personal property tax?

Real property tax is based on assessing buildings, structures, land, land improvements, or growing improvements like orchards or vines. Personal property is based on the valuation of tangible business personal property like equipment, machinery, or tools owned by a business.

Do I need to file personal property tax returns every year?

You must file an annual personal property tax return if you have assets in a jurisdiction that assesses personal property. Depending on the jurisdiction of the personal property, there will be different filing deadlines and compliance rules, so it is important to research or speak to an accountant to avoid mistakes.

California Revenue and Taxation Code 441(a) require taxpayers who own personal taxable property worth \$100,000 or more to file a yearly return.

Is tax software required to file property tax returns?

Special tax software is not necessary to file a property tax return. Each jurisdiction has different requirements, but you may be able to file a return electronically or by hard copy. Complete the electronic returns per the jurisdiction's website. Ensure all forms are postmarked by the correct filing date if sending in hard copies. Most counties, such as Los Angeles County, allow online payment of property taxes. Registering within each jurisdiction in advance is essential to ensure an account is set up to file returns by their respective deadlines.

Do I need to include intangible assets in a property tax return?

Intangible assets, like stocks, bonds, or mortgages, do not need to be reported on personal property returns. Only include tangible business personal property, like equipment, machinery,

or office furniture.

When are business personal property statements due?

For the State of California, January 1 is the lien date for all taxable property. January 3 is the first day to file your business property statement, and April 1 is the due date. You can file up to May 9 without penalty.

Tax payments are due August 1 for property assessed on the unsecured roll and November 1 for property assessed on the secured roll. You generally have 30 days to pay the first installment of property taxes based on their original payment date. Counties will have separate filing dates and systems dependent on the county treasurer's office. It is important to check with a tax professional to determine whether there are qualified assets that must be reported to the jurisdiction where the business is physically located.

Which assets are included in personal property tax reporting?

The assets included in personal property assessment typically include tangible fixed assets. Tangible fixed assets are physical assets that you own or lease for business. They can include, but are not limited to:

Office furniture and supplies

Farm or vineyard equipment

Machinery and equipment

IT equipment

Tooling

Molds

Leased equipment

Is there a penalty for failing to file a personal property tax return?

Failing to file a personal property tax return forces the assessing jurisdiction to estimate the property value, which may not accurately represent its worth. Some jurisdictions also include a penalty or interest for failure to file a return. For example, San Francisco charges 10% of the property's assessment for not filing a property statement.

If I own multiple properties, can I file only one property tax return per state or jurisdiction?

In short, no. Most jurisdictions require a separate property return for each property you own. If you own five properties in one jurisdiction, you must file five separate property tax returns. For example, if you own two buildings in Orange County, you must file two property tax returns to comply with state requirements. Some counties have forms with multiple fields for each property, but again, it depends on how the county created its tax forms.

Are there property tax exemptions or exclusions?

Eligibility for a few exemptions is possible depending on the property type and location. There are also special-use exemptions in some areas that reduce or limit property valuation, like agricultural exemptions and temporary exemptions for situations of property damage caused by natural disasters or special development areas where tax exemptions are given to businesses to incentivize development.

There are also tax exemptions for:

- Disabled veterans
- Those over 65 years of age
- Primary homestead
- Solar energy installations
- Earthquake retrofitting
- Pollution control equipment
- Fire-safety equipment
- Computer software
- Licensed vehicles
- Oak barrels used to age wine

How do I know if my business personal property tax may be overvalued?

Many factors may indicate the overvaluation of business personal property. Consider the following to determine if an overvaluation occurred:

Has the usefulness of the asset been reduced?

Are any outside economic factors keeping the property from full use?

Is the property idle?

Has the property been disposed of but not reported?

Did the company acquire the property for a higher or lower price than the original cost?

Have you included costs beyond the tangible personal property to inflate the value?

Has the company evaluated all available exemptions, such as foreign trade zones, freeport, and pollution control?

How can I appeal a business personal property tax assessment?

It is possible to appeal a business personal property tax assessment. You will typically file an appeal after a notice of assessed value or when you receive a personal property tax bill. You will need to file Form BOE-305-AH, an Assessment Appeal Application. You can get the form through the Clerk of the Board or the County Assessor.

After you file, you may need to enter discussions with the assessing jurisdiction to reach an agreement. If an assessee and assessor cannot agree on the property's value, there will be a formal hearing. Both sides will present evidence to support their opinion on the property's value. The Board of Equalization will make the final decision.

Who pays property tax for the year of sale of a business or asset?

While most states, including California, have a lien date of January 1, others may vary. A property's yearly assessment is made on the lien date. If a property is sold after this date, the parties must decide who is responsible for property taxes for that year. Typically, this is negotiated between the two parties involved in the sale and prorated for each party. For example, in Los Angeles County, the taxes are prorated by the buyer and seller in escrow and paid as part of the settlement in the sale of the business.

Do I file property taxes on new construction while still in progress?

Some areas have a specific investment component for construction in progress (CIP) for business personal property. In these jurisdictions, the owner of the CIP will be responsible for reporting the costs. They must estimate the fair market value of the improvements based on what is completed by the lien date (January 1).

After completion of the construction, they must have a new assessment that accounts for the finished project.

Do I need to report the net book value of zero assets?

If you have assets with a net book value of zero, but they are still in use by your business, you must report them annually to your tax jurisdiction. You can only stop reporting an asset if you sell, dispose of, or transfer ownership.

What is the life cycle of property tax compliance?

The typical life cycle for personal property tax compliance includes the following steps:

Find fixed asset listings, trial balances, and any related financial information for the assessment date for the properties you are filing for.

Review fixed asset classifications for the property's jurisdiction. Calculate any reportable supplies, inventory, and construction in progress.

Review large transactions throughout the year for potential additions for assets purchased.

Prepare the return through the recommended method of the jurisdiction.

Receive either a notice of assessed value or a tax bill.

Review the proposed assessment for accuracy.

Appeal the assessment if you believe it is inaccurate.

Take note of the date of payment for the tax bill and keep payment documentation for proof of payment. It may be as soon as 30 days after issuance or many months later.

Navigate Property Taxes in California with the Help of a Qualified Accountant

Understanding the implications of state and local taxes is a unique challenge for real estate owners. [Real estate accounting services](#) that provide practical, tax, financial, and accounting solutions customized to meet the needs of commercial property owners and investors can help minimize tax liability on properties.

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