

MAY 11, 2010

CALIFORNIA REAL PROPERTY TAX: ASSEMBLY BILL 2492 WOULD ADD A NEW CHANGE OF OWNERSHIP RULE TO EXISTING RULES FOR LEGAL ENTITIES HOLDING CALIFORNIA REAL PROPERTY

Assembly Bill 2492 (“**AB 2492**”), as amended on May 3, 2010, proposes an additional change of ownership rule with respect to transferring ownership interests in legal entities holding California real property.

Under current California real property tax law and rules, real property owned by an entity such as a partnership, a limited liability company or a corporation is generally not reassessed when ownership interests in the entity are transferred. However, the real property owned by an entity is reassessed when some person or entity acquires “control” of the entity. Acquiring “control” is defined for these purposes as beginning with a 50% or lower economic interest in an entity and ending up with a greater than 50% economic interest in the entity. The real property is also reassessed under certain limited circumstances when there has been a cumulative transfer of more than 50% of the interests in the entity by so-called original co-owners, even though no person or entity ends up with “control” of the entity.

If AB 2492 is enacted, California real property owned by an entity would undergo a change of ownership when 100% of the ownership interests in the entity are sold or transferred in a single transaction, whether or not the rules describe above apply. In addition, AB 2492 would require the California State Board of Equalization to notify assessors when this new rule causes a change of ownership.

The May 3, 2010, amendment to AB 2492 removed the proposed overhaul of the change of ownership rules that we described in our bulletin of April 22, 2010. A copy of that bulletin can be found at <http://www.coxcastle.com/publications/publication.cfm?id=508>.

On May 10, 2010, the Assembly Committee on Revenue and Taxation passed AB 2492 by a vote of 6 to 3. AB 2492 has been referred to the Assembly Committee on Appropriations. A further hearing date has not yet been scheduled.

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