



CRE TAX APPEAL

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## Base Year and Supplemental Appeals

*A Technical Guide for California Commercial Property Buyers and Their Tax and Finance Teams*

**\$61M+**

Saved for CA clients

**95%**

Win rate

**No fee**

unless we win

### Why the Starting Point Matters

Under Proposition 13, a California property's taxable value is reset to its full market value when it changes ownership or when new construction is completed. That reset becomes the property's base year value. Every tax bill for as long as you own the property is built on it, increased by an inflation factor of no more than 2% a year.<sup>1</sup>

That makes the base year the most important number in your property tax history. An overstated base year carries into every tax bill until you sell. Correcting it is the only permanent fix, and California gives buyers two ways to do it, each with its own deadline.

*If your base year is too high, you overpay every year you own the property. A Base Year or supplemental appeal fixes it once, for the entire hold.*

### How the Base Year Is Set

After a purchase, the Assessor enrolls a new base year value as of the date of the change in ownership, usually starting from the purchase price. Because the regular tax bill was based on the prior owner's value, the county issues a supplemental assessment to bill the difference for the rest of the fiscal year (and sometimes the next one). The notice of supplemental assessment is your first opportunity to contest the new value.<sup>2</sup>

For new construction, the Assessor adds the value of the completed construction to the existing base year, often using cost estimates rather than the owner's actual costs.

### Why the Purchase Price Is Not Always the Right Number

California law presumes that an arm's-length purchase price equals full cash value, but the presumption can be overcome by a preponderance of the evidence.<sup>3</sup> In our experience, base year values end up too high in four recurring situations:

- **The Assessor enrolled more than you paid.** Clerical errors, unadjusted portfolio allocations and Assessor estimates can put the base year above the actual price. This is the most direct case to win.
- **You paid more than market value.** A strategic premium, a 1031 exchange deadline, competitive bidding or unusual deal terms can push the price above what the property would bring in an open market.
- **The price included more than real estate.** Purchase prices often bundle in value that is not taxable as real property: business and going-concern value, licenses and other intangibles, furniture, fixtures and equipment, and rent from leases set above market in sale-leasebacks. California excludes intangible business value from assessed value.<sup>4</sup>
- **New construction was valued above its cost or market value.** Assessor cost models can overstate what it cost, or what the market would pay, to build the improvements.

## Supplemental and Base Year Appeals Compared

|                         | Supplemental appeal                                                        | Base Year appeal                                                                                              |
|-------------------------|----------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------|
| <b>What is appealed</b> | The new base year value, through the supplemental assessment               | The base year value on the regular roll                                                                       |
| <b>Deadline</b>         | Within 60 days of the mailing date on the supplemental notice <sup>5</sup> | The regular filing period in the year the value is first enrolled or any of the next three years <sup>6</sup> |
| <b>What it recovers</b> | Supplemental taxes and every future year                                   | Every year from the year you file forward                                                                     |
| <b>If you wait</b>      | Missing the 60 days forfeits refunds of supplemental taxes                 | Relief is prospective only; earlier years cannot be recovered                                                 |
| <b>Duration</b>         | Permanent for the hold (2% annual factor)                                  | Permanent for the hold (2% annual factor)                                                                     |

*Practical rule: if you have bought or built in the last four years, the clock is already running. The sooner the appeal is filed, the more years it covers.*

## Base Year Appeal or Decline-in-Value Appeal?

Decline-in-value (Proposition 8) appeals reduce taxes for a single year when market value falls below the trended base year. They must be refiled every year and disappear when the market recovers. A Base Year appeal corrects the foundation itself. For a property whose base year is overstated by \$5,000,000:

| Over a 10-year hold                            | Base Year appeal              | Prop 8 appeal every year                    |
|------------------------------------------------|-------------------------------|---------------------------------------------|
| <b>Tax savings, year 1 (at 1.15%)</b>          | \$57,500                      | \$57,500                                    |
| <b>Tax savings, year 10 (2% annual factor)</b> | \$68,718                      | \$68,718, only if refiled and won each year |
| <b>Total tax savings, 10 years</b>             | \$629,609                     | \$629,609, at best                          |
| <b>CRE Tax Appeal fee</b>                      | \$34,500 (60% of year 1 only) | \$207,771 (33% of every year)               |
| <b>Net to you</b>                              | \$595,109                     | \$421,838                                   |

*Illustrative. Assumes the same reduction is achieved each year under Prop 8, which requires a new appeal and depends on market conditions every year.*

## Building the Record

Base Year appeals are won on documents. The evidence we assemble typically includes:

- Purchase agreement, closing statement and any price allocation among real property, personal property and intangibles
- Lender or third-party appraisal, broker opinions, and the marketing history and competing offers
- Rent roll, lease abstracts and operating statements, including any above-market or related-party leases
- For new construction, actual cost breakdowns and comparable construction costs
- Comparable sales and market data showing what the property would bring in an open-market sale

## Proven Base Year and Supplemental Results

**Self-storage operator, about \$25M to \$15M:** its prior tax firm's decline-in-value appeal produced no reduction. Our Base Year appeal won at the Appeals Board, saving roughly \$115,000 a year for as long as the owner holds the property.

**Hotel assessed at double its purchase price:** a hotel bought for about \$17M was assessed at more than twice that. Prior counsel could not resolve the appeal; we were appointed and produced about \$575,000 in refunds.

**Auto dealership, \$450,000+ per year:** a dealership sold in an atypical transaction far above market value. Within months, we reduced the assessment below its pre-sale level, a permanent reduction.

**Auto dealership tenant, \$500,000:** a buyer overpaid and the county enrolled the inflated price, passing the taxes to the tenant under a net lease. Our base year appeal reduced the tenant's tax bill by \$500,000.

**\$80M apartment purchase assessed at \$90M:** our supplemental appeal restored the \$80M value, saving \$110,000 a year and reducing the second supplemental installment to zero.

**New construction, \$100,000+ per year:** we showed the Assessor's cost estimates exceeded industry standards, reducing a developer's base year values permanently.

**Assessed at 127% of the purchase price:** the Assessor refused to negotiate; the Appeals Board reduced the base year to the price paid.

**The wrong type of appeal:** a prior agent filed annual decline-in-value appeals on a property enrolled 35% above its foreclosure purchase price. We filed a Base Year appeal instead, saving \$20,000 every year with a single fee.

*"If you own commercial real estate and want to lower your real estate taxes, choose to work with Joseph Reinagel and Brett Ulyate of CRE Tax Appeal. My company has saved more than \$150,000 as a result of their expertise and diligence."*

**Casey Griffin, Wilson Automotive, Newport Beach, California**

*"CRE Tax Appeal has delivered unmatched results handling our real estate appeals in Southern California. Facing a decade of backlogged appeals in LA County, CRE delivered results exceeding anything we had previously achieved internally or using outside firms. To date, they have achieved \$2.5M in savings and relentlessly pursued refunds to ensure every dollar is collected. Our tax team at Macy's highly recommends CRE for their abilities and excellent client service."*

**Michael Clary, Macy's**

## Our Fee

Base Year and supplemental appeals: 60% of the first year's tax savings. Every later year's savings are yours, with no further fee. Decline-in-value appeals: 33% of each year's savings. On every appeal, there is no upfront cost and no fee unless we reduce your taxes.

## How It Works

**Step 1: Request a free property review.** We compare your base year value with your purchase and market data, then walk you through the numbers and the deadline that applies to you in a 15-minute call. **Step 2: We file and build the case.** After a short agreement and agent authorization, we file the appeal, assemble the record, negotiate with the Assessor, and present the case to the Assessment Appeals Board if needed. **Step 3: You receive your refund and lower bills.** We track supplemental refunds and confirm the corrected base year carries forward on every future bill.

## Get Your Free Property Review Today

Or call us at 858-505-8065 | [cretaxappeal.com/free-property-review](https://cretaxappeal.com/free-property-review)

*Supplemental appeals: 60 days from your notice. Base Year appeals: a regular filing period within four years. No fee unless we win.*

### Notes

<sup>1</sup> California Constitution, article XIII A, section 2 (Proposition 13): base year value and annual inflation factor of no more than 2%.

<sup>2</sup> Revenue and Taxation Code section 75 and following (supplemental assessments); section 75.31 (notice of supplemental assessment and right to appeal).

<sup>3</sup> Revenue and Taxation Code section 110(a) and (b): full cash value defined; purchase price presumed to be full cash value, rebuttable by a preponderance of the evidence.

<sup>4</sup> Revenue and Taxation Code section 110(d): intangible assets and rights relating to the going-concern value of a business are excluded from the value of taxable property.

<sup>5</sup> Revenue and Taxation Code section 1605; State Board of Equalization Property Tax Annotation 790.0030. If the 60-day period is missed, the base year may still be appealed in a regular filing period, but supplemental taxes are not refunded.

<sup>6</sup> Revenue and Taxation Code section 80; State Board of Equalization Letter to Assessors No. 2017/042. Relief from a Base Year appeal is prospective from the year the appeal is filed.

This guide is general information, not legal advice. Deadlines and procedures vary by county; we confirm the deadline for your property before filing.