

New Construction and Property Taxes

for the Santa Clara County
Property Owner

How new construction, altering
an existing building, or changing
the use of a property impacts
property taxes



**Office of the Assessor
Santa Clara County**

130 West Tasman Drive
San Jose, CA 95134
(408) 299-5500
www.sccassessor.org

“New Construction”

is one of the most common reasons a property is reassessed and the Assessed Value increased beyond the Proposition 13 protected 2% annual increase.

It is important to understand that an appraisal is an estimate of market value. An assessment is the value placed on a tax roll. Assessed value is the taxable value of the property, which includes the land and any improvements made to the land, such as buildings, landscaping, or other developments. Certain types of new construction and modifications of the residence for a disabled person, may be excluded from reassessment. Examples include adding fire sprinklers, retrofitting unreinforced masonry buildings, and making disaster repairs.

Normally “new construction” is thought of as building a new structure or adding on to an existing structure. Under California property tax law, “new construction” can also mean renovating a structure to change its use, rehabilitating a structure to a “like new” condition, or even removing a structure. However, not every building permit for new construction results in a reassessment of the property.

Generally, assessed value is added for new construction under the following circumstances:

1. New building(s) constructed on vacant land.
2. Additional square footage added to an existing building.
3. Additional buildings or improvements to property. For example, adding a garage, swimming pool, or bathroom.
4. Physical alteration (rehabilitation), converting a building or any portion thereof to the substantial equivalent of a new structure, or changing the manner in which a building is used.

The Assessor’s Office processes thousands of building permits annually, yet typically less than half result in new, higher assessments.

The information to follow is designed to help property owners and taxpayers understand when new construction may result in a reassessment.

How and when will “new construction” be assessed?

In assessing new construction, only the value of the added improvement is considered. For example, if a new building is constructed on vacant land, the building is assessed at market value and the land will retain its existing factored base year value.¹ If an addition to a structure changes its size, such as from 1,200 square feet to 2,000 square feet, only the market value of the additional 800 square feet is added to the assessed value. In both examples, a new base year value for the new construction is established. The factored base year value of the land and existing structure(s) remain unchanged.

If an addition to a structure changes its size, only the market value of the addition is added to the assessed value.

The new assessed value is determined as of the date of completion of construction. If the construction is ongoing as of the Lien Date (January 1), the value of the partially complete construction is estimated and entered on the next assessment roll.² When construction is complete, the new base year value is determined. A supplemental assessment is issued for the difference between the value as of the date construction is complete, and the value that previously existed on the assessment roll. The value of the new construction will be based on market value. The Assessor may use a variety of approaches to value the new construction per the Revenue & Taxation Code.³

1. A base year value is established each time there is a change in ownership or completion of construction, which, in subsequent years is modified only by applying the mandated inflation factor, not to exceed 2%. A property with multiple completion of construction dates, or multiple partial interest transfers, will have a separate indexed base year value for each component. The total assessment is the sum of the components and is the basis for calculation of the taxes.
2. The term “Lien Date” can have multiple meanings: It is the time when taxes for any fiscal year become a lien on property; and the date as of which property is valued for tax purposes. For the Assessor, the Lien Date for California property tax valuation is 12:01 a.m. on January 1 (effective January 1, 1997), preceding the fiscal year for which the taxes are collected, and the date of an assessable transfer or completion for new construction.



What costs will be considered in the assessment?

While contractor or owner’s actual costs are considered, the Assessor is obligated by the California State Constitution to add the market value of the new construction.

When the Sales Comparison Approach is employed, an appraisal of the land and the improvements is done as of the date of completion to determine the value of the new construction.

The Cost Approach is often employed by the Assessor to appraise new construction. The Cost Approach considers all the costs incurred in the course of construction. These “Full Economic Costs” include labor and materials, permit fees, and contractor’s overhead and profit. In addition, there are indirect costs, such as developer’s administration expense, professional fees, construction financing, insurance, and entrepreneurial incentive or profit.

For more information about valuation approaches, scan the QR Code to the right or visit the Assessor’s website at <https://www.sccassessor.org/property-information/homeowners/homeowner-new-construction>.



3. There are three universally accepted valuation/appraisal techniques to determine fair market value: (1) Sales Comparison Approach, (2) Income Approach (usually appropriate for income producing properties), and (3) Cost Approach. While the Cost Approach is a valid and useful technique for determining value of some properties, the final determination of assessed value will be based on the amount the general public would pay for the work, including a market based profit. The application of the Cost Approach to determine assessed value is the least preferred method of valuation and is only appropriate for special use properties, or when available market information is insufficient to render an accurate application of the previous two approaches to value. For more information on these three approaches to value, please see the references enclosed.

Entrepreneurial incentive is defined as the amount that a developer expects to receive before a project is initiated. Entrepreneurial profit is the amount that a developer actually receives after a project is completed. A prudent developer who undertakes to construct and market a property anticipates receipt of a (entrepreneurial) profit in addition to the return of the equity investment.

New construction associated with income-producing properties may be assessed using the Income Approach. Here the methodology is similar to the Sales Comparison Approach because the market value of the total property is determined based on the income the subject property could generate. The market value of the land is then deducted to leave a residual market value of the improvements. In general, the difference in the amount of money the property would have sold for if offered for sale as it existed immediately prior to the new construction, and the amount it would sell for on the open market immediately after the completion of construction, is the best indicator of market value.



If square footage is added to a home, will it cause a reassessment of the entire property, including the land?

The assessed value of property includes the land and any improvements made to the land, such as buildings or other developments. Copies of all building permits are forwarded to the Assessor by each city and the County to identify property that may require reassessment. In estimating new construction, only the value of the added improvement is considered. For example, if an addition changes the size of the structure (improvement), such as increasing from 1,200 square feet to 1,400 square feet, only the market value of the additional 200 square feet is added to the assessed value. The factored base year value of the land and existing structure(s) remain unchanged.

Granny Units/Accessory Dwelling Units (ADUs)

Accessory Dwelling Units or “ADUs” are growing in popularity. Many cities are streamlining the permit process to make it easier to build this type of dwelling.

If a property owner adds an ADU, the property assessment – and ultimately the property taxes – will go up.

The new construction of the ADU will be assessed at market value as of the date of completion, or as of the January 1 Lien Date for partially complete construction. Typically, Assessors use either the cost of construction or a market-based sales comparison to value the new improvements separately. This new assessment is added to the existing assessment.

For conversions of existing space such as a family room or garage into an ADU, though no new square footage is added, any alterations of the existing space will be assessed at market value. For example, if new heating, bathroom, or kitchen fixtures are added, the cost will be added to the existing property tax base of the area that is modified. Other areas of the home untouched will not be reassessed by the Assessor. However, if the area modified is “taken down to stud walls,” making it substantially equivalent to new, it may be reassessed as new.

Does repairing property cause reassessment?

Normal maintenance and repair is the action of continuing, preserving, or retaining property in proper condition. Maintenance performed on real property is normal when it is regular, standard, and typical. The installation of new items that replace old items, but provide a similar function, is not typically considered reassessable new construction.

Routine repairs necessitated by normal wear and tear, such as replacing a water heater, carpet, or roofing, are not considered new construction and are not subject to reassessment.





Will the repairs to a property purchased in poor condition be assessable?

Purchasing a property in poor condition and then replacing multiple items in a short period of time is not standard and typical normal maintenance. Timing and scope of work must be considered to determine when maintenance and repair becomes rehabilitation and renovation that brings an improvement to a state that is substantially equivalent of new. Rehabilitation is defined as the restoration of a property to satisfactory condition without changing the plan, form or style of the property, and involves curing physical deterioration. If rehabilitation makes the structure substantially equivalent to new, it qualifies as reappraisable new construction.

What is “substantially equivalent to new”?

New construction is assessable when that new construction has converted an improvement (or a portion of the improvement) to a state that is “substantially equivalent to new.” For example, if a house is stripped and taken down to the studs, and the restoration is such that the house has been converted to a state comparable to a new house, the conversion would be reassessable as new construction. The Assessor will look at the project and determine whether structural components such as roof structure, exterior walls, floor structure, foundations, substantial portions of the plumbing, electrical, and/or HVAC (heating, ventilating or air conditioner)

systems are being replaced. In the course of a major renovation or extensive rehabilitation, owners may convert their properties to the “substantially equivalent to new” by significantly altering the existing improvements. In some situations, property owners use both additions and alterations to convert improvements into the “substantially equivalent to new.” Whether or not new construction transforms an improvement (or a portion thereof) into a state that is “substantially equivalent to new” is a factual determination that must be made by the appraiser on a case-by-case basis.

What about repairing major damage suffered in a calamity?

In general, the reconstruction of property that has been damaged or destroyed by misfortune or calamity such as fire, flood, or earthquake, is not reassessable new construction if the following requirements are met: 1) the property is reconstructed in a timely fashion; and 2) the property after reconstruction is substantially equivalent to the property prior to the damage or destruction. The damage must be sudden, caused by a misfortune or calamity, not a gradual deterioration over a long period of time. For more information on eligibility requirements for disaster relief, scan the QR Code to the right, go to <https://www.sccassessor.org/tax-savings/tax-reductions/disaster-relief/>, or call (408) 299-5300.



How does the Assessor know that new construction has occurred?

Discovery of new construction occurs in a variety of ways such as building permits, information volunteered by the public, personal observation of Assessor staff performing routine field checks, or reported at the time a property transfers ownership. By state law, the County and all the cities in the county are required to provide the Assessor with copies of building permits. All new construction must be assessed, whether or not a building permit has been issued. Upon discovery, the Assessor is required to determine the date of completion, and the value as of the completion date, and to correct the assessment roll for up to four years from the date of discovery.

Whether the discovery of new construction is from a building permit, information from the public, or a routine staff field check, property owners may receive a hang tag (see image) on their property indicating the Assessor needs more information to ensure a fair and accurate appraisal. This may include arranging for a physical inspection. Property owners have 10 days to respond to the notice. Without a response, the Assessor's Office will rely on the best available information to prepare the new assessed value of the new construction.

Office of the Assessor
County of Santa Clara
Real Property Division
130 West Tasman Drive
San Jose, CA 95134
(408) 299-5300 www.sccassessor.org

Lawrence E. Stone, Assessor

RE: APN _____
Address: _____
Date: _____

Dear Property Owner,

Our records indicate that your property has been issued a **building permit** or has had a **change in ownership**.

By State Law, this office is required to appraise such property. To ensure a fair and accurate appraisal, we need more information and may require a physical inspection.

If we do not hear from you **WITHIN 10 DAYS**, we will rely on the best available information to prepare the new assessed value of your property.

*Please contact me to schedule an appointment.
My contact information is attached below:*

Jane P. Assessorman
Assessor

Office of the Assessor
County of Santa Clara

Lawrence E. Stone, Assessor
130 West Tasman Drive, San Jose, CA 95134
Office (408) 299-5300
lpstone@sccassessor.org
www.sccassessor.org

Is remodeling considered new construction?

Remodeling is changing the plan, form, or style of a structure. Remodeling that does not involve adding to the size of the structure or to the amenities provided within the structure is generally not considered new construction and is not subject to reassessment. The exception is those situations where the remodeling is so extensive as to constitute the "substantial equivalent" of a new structure.



If a remodeling project is extensive, the property owner is encouraged to contact the Assessor's Office at (408) 299-5300, in advance, to obtain a better idea of how the project may be treated for assessment purposes.

Are seismic safety improvements assessable?

Section 74.5 of the Revenue and Taxation Code provides an exclusion for the addition of any seismic retrofitting components to existing buildings and structures. There are specific filing requirements to get the seismic safety exclusion. For more information on the seismic safety exclusion, scan the QR Code to the right, go to <https://www.sccassessor.org/tax-savings/new-construction-exclusions/earthquake-retrofit>, or call (408) 299-5300.



Will solar energy improvements added to the home be assessed?

An active solar energy system is defined as a system that uses solar devices which are thermally isolated from the living space or any other area where the energy is used, to provide for the collection, storage or distribution of solar energy. Revenue & Taxation Code Section 73 provides that the construction or addition of any active solar energy system is excluded from the definition of assessable new construction. An active solar energy system does not include solar pool heaters or hot tub heaters. For more information on solar energy exclusion, scan the QR Code to the right, go to <https://www.sccassessor.org/tax-savings/new-construction-exclusions/solar-energy-exclusion>, or call (408) 299-5300.



What if the property owner does not agree with the assessed value placed on the new construction?

After receipt of the notice of assessment, if the property owner disagrees with the value of the new construction, they may request an informal review of the assessment from the Assessor's Office. If the Assessor does not agree to a reduction, or the property owner disagrees with the results, the administrative remedy is to file a formal Assessment Appeal with the Clerk of the Board. For a supplemental assessment, escape assessment, or roll correction, the Appeal application must be filed within 60 days of the date of the notice.

Appeal applications may be obtained by calling the Clerk at **408-299-5088**, or their website at <https://boardclerk.sccgov.org/assessment-appeals>.

**Clerk of the Board, County Government Center
70 W. Hedding Street, East Wing, 10th Floor
San Jose, CA 95110**

Please note that filing an Assessment Appeal does not relieve an owner of the responsibility for paying any outstanding tax bill. If the bill is not paid on time, penalties and interest charges may apply. If after paying the bill the Appeals Board lowers the value, the taxpayer will be refunded any excess taxes paid.

Mission Statement

The mission of the Santa Clara County Assessor's Office is to produce an annual assessment roll, including all assessable property in accordance with legal mandates in a timely, accurate, and efficient manner; and provide current assessment-related information to the public and to governmental agencies in a timely and responsive way.

Disaster Relief

There are two types of disaster relief:

Base year value transfer to replacement property. (Proposition 19)

To qualify, the homeowner must:

- Have incurred the transfer because of a wildfire or natural disaster.
- Purchase or newly construct a principal residence within two years

A reduction of assessed value while property is in its damaged condition

To qualify a homeowner must:

- File a claim withing 12 months from the date of damage.
- The loss estimate must be at least \$10,000 of the current market value.

For more information on Disaster Relief, scan the QR Code to the right or go to <https://www.sccassessor.org/property-information/other/disaster-related/>



References

California Constitution Article 13A SEC. 2. (a)

The “full cash value ”means the County Assessor’s valuation of real property as shown on the 1975-76 tax bill under “full cash value” or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment.

Property Tax Rule: 463 (b)3

Any physical alteration of any improvement which converts the improvement or any portion thereof to the substantial equivalent of a new structure or portion thereof or changes the way in which the portion of the structure that had been altered is used, e.g., physical alterations to an old structure to make it the substantial equivalent of a new building without any change in the way it is used, or alterations to a warehouse that makes it usable as a retail store or a restaurant. Only, the value, not necessarily the cost, of the alteration shall be added to the appropriately indexed base year value of the preexisting structure.

California Revenue and Taxation Code Sections: 70, 71, 72, 73, 74.5, 110.

Available at https://leginfo.legislature.ca.gov/faces/codes_display-Text.xhtml?lawCode=RTC&division=1.&title=&part=0.5.&chapter=3.&article=

and

https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=RTC§ionNum=110.

Property Tax Rules: 2, 4, 463 (d)

Available at <https://www.boe.ca.gov/proptaxes/prop-tax-rules.htm>

Assessor’s Handbook 410

Assessment of Newly Constructed Property at

<https://www.boe.ca.gov/proptaxes/pdf/ah410.pdf>.

Santa Clara County Office of the Assessor Contact Info.

Public Service • (408) 299-5500

Real Property (land and improvements)

(408) 299-5300 • rp@asr.sccgov.org

Personal Property, including Businesses, Manufactured Homes, Boats and Aircraft

(408) 299-5400 • busdiv@asr.sccgov.org

Property Tax Exemptions

(408) 299-6460 • exemptions@asr.sccgov.org

Change in Ownership

(408) 299-5540 • propertytransfer@asr.sccgov.org

Mapping • (408) 299-5550 • mapping@asr.sccgov.org

Administration • (408) 299-5588

Questions? Go to www.sccassessor.org to get answers.

Need translation?

The Assessor's Office has employees who speak Vietnamese, Spanish and Chinese. Call us at (408) 299-5500.

Cần giúp thông dịch? Văn phòng Giám Định Nhà Đất có nhân viên nói được tiếng Việt. Vui lòng gọi cho chúng tôi ở số (408) 299-5500.

¿No habla inglés? En la oficina del Tasador hay empleados que hablan español. Llámenos al (408) 299-5500.

需要翻譯? 估值官辦公室裡有說中文的工作人員。請致電 (408) 299-5500.



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