

PERSONAL PROPERTY TAX EXEMPTION (NEW 8/76)

3574.6

The State is exempt from property taxation under California Constitution, Article XIII, Section 3(a). Any obligation for property tax on State leased equipment would exist, if at all, only as a result of an express provision of the lease agreement. If the lease obligation existed, payment would not be made directly to taxing authorities, but would be limited to reimbursing the lessor for actual tax payments which the lessor could prove had been made.

Provisions in a lease adding "applicable State and local taxes" to the monthly rental relate to sales and use taxes and do not encompass personal property tax. Any lease clause which requires the State to reimburse the lessor for personal property tax must be contained within the approved contract before the State would make any payments to reimburse the vendor for this tax. However, clauses requiring the State to reimburse for personal property tax should be avoided whenever possible.

If a copy of a personal property tax bill is received, the bill should be forwarded for payment to the lessor named in the bill by a letter per 3574.6 Illustration. No payment should be made by the State. If, after payment of the taxes, the lessor submits a properly documented claim for reimbursement and the lease so provides, the lessor can be reimbursed for the taxes applicable to the lease term.

In some instances, personal property tax bills will be received on equipment which was on lease but which was purchased by the State prior to the tax lien date of March 1st. In such a case, the property would be tax exempt and the bill should be returned to the taxing authority with a letter notifying it of the change in ownership. Such notice should include the date on which the State's purchase was made.

Questions regarding contracts or exemptions should be directed to the Department of General Services' Legal Office at (916) 445-4084 or ATSS 485-4084.