



A Tradition of Stewardship
A Commitment to Service

Assessor-Recorder-County Clerk
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LESSEE-OWNED IMPROVEMENTS

An owner of real property who leases property to another is known as the lessor. The person to whom the property is leased is known as the lessee. The usual lease is of a home, office building, warehouse or other developed property to one or more lessees who occupy and use the structural improvements on the property. However, in some vacant land leases, the lessee builds a structure or plants a vineyard and those improvements remain the property of the lessee during the term of the lease, unless the lease provides otherwise. Under California law the assessor is entitled to obtain a copy of the lease and to keep the terms of the lease confidential. Both the lessor and the lessee benefit by informing the assessor of the existence of a lease to insure that assessed values are correct and tax bills are sent to the right person. By analyzing the lease, the assessor can determine whether a separate assessment for the lessee-owned improvements should be created.

When the improvements are owned by the lessee, the assessor creates a separate, unsecured assessment for those improvements. The assessment is unsecured because the real property (land) is in a different ownership and cannot be used to secure the property taxes. The unsecured assessment is in the name of the lessee. The lessee-owned improvements receive a base year value and are subject to the annual inflationary adjustment required under Proposition 13. Improvements on leased land are also subject to supplemental assessments if there is a change in ownership or new construction, i.e. additional vineyard planted. An unsecured tax bill for the improvements on leased land is mailed to the lessee in July, consists of one installment and is delinquent if not paid by August 31.

Lessors and lessees set forth their respective property tax obligations in the lease document. Depending on the property tax obligations, there may still be a necessity to allocate the property taxes on the land between the lessor and the lessee if the lease does not cover the entire parcel. This allocation can be obtained from the assessor for the payment of a fee. Because the lessee's improvements are on a separate, unsecured bill, those taxes do not need to be allocated. Leases are a useful but complex business tool. Any potential lessor or lessee should consult one or more professionals in the financial, real estate and legal fields.

Should you have any questions please contact Napa County Assessor-Recorder-County Clerk John Tuteur at 707.253.4459 or by e-mail john.tuteur@countyofnapa.org More articles can be found at <http://www.countyofnapa.org/Assessor/>