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STATE OF CALIFORNIA EDMUND G. BROWN, *Governor*

COMMISSION ON CALIFORNIA STATE GOVERNMENT ORGANIZATION AND ECONOMY

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L. H. HALCOMB, JR.
Executive Secretary

December 28, 1964

Honorable Edmund G. Brown
Governor, State of California

Honorable Hugh M. Burns
President pro Tempore, and to Members of the Senate

Honorable Jesse M. Unruh
Speaker, and to Members of the Assembly

Gentlemen:

In a separate recommendation of this date, this Commission proposed the establishment of a strong Department of Revenue with a Director appointed by and responsible to the Governor to administer most of the state taxes, including inheritance and gift taxes. In this plan we do not propose, however, that the inheritance tax appraisers become employees of the department. We believe that they should continue to be appointed independently by the State Controller from lists of appraisers meeting established qualifications and that their appraisals, as outlined below, be used by the department for inheritance tax application as well as by the courts for probate purposes.

We recommend that a modified self-assessed method of administering the inheritance and gift tax be placed into effect for certain assets. Such a system would provide that the executor (or administrator) or the attorney for the estate continue to have responsibility for preparing the inventory of an estate's assets. Instead of providing a list of "suggested values", however, as is present practice, we recommended that the executor or attorney actually value for tax and probate purposes the assets which have a comparatively exact and ascertainable market value. These include such assets as cash, stocks, bonds, mortgages, securities, insured personal property and some chattels. In addition, the attorney or executor would also be responsible for establishing the value of all real property that has a current assessed value of $6,250 or less. The appraised value for this purpose would be deemed to be four times the amount of the current assessed valuation. In these instances estate-assessed values for tax purposes would also be used by the court for probate purposes.

The Commission suggests that the determination of the market value of real property with an assessed valuation of over $6,250 continue to be the responsibility of the appointed inheritance tax appraisers. These appraisers, as they are now, would also be responsible for establishing the value of such specialized personal property as jewelry, antique furniture, paintings and closely held businesses and certain other chattels for which the determination of market value requires specialized knowledge.

The adoption of an inheritance tax appraisal system involving both self-appraised and appraiser valuations will, of course, require a modification of the statutes establishing probate and inheritance tax procedures and appraisal fees. The system proposed contemplates that fees paid appraisers will be based only on the appraiser valued portion of the estate. Fees for the portion that would be self-appraised would be paid into the general fund thus allowing for more thorough audits and supervision without a net increase in the cost of administration.

According to data supplied by the State Controller the total value of the 44,150 decedents estates in 1963 was 3.15 billion dollars. Inheritance tax appraisers received $3,197,000 in fees for establishment of estate valuations and for related services for these estates. We estimate that as a result of our recommendations, $750,000 of the amount retained annually by appointed appraisers for the appraisal of assets whose market value is readily ascertainable would be directed instead to the State's general fund. Similarly, based upon data supplied by the State Controller, we estimate that application of the formula proposed above for the self-appraisal of certain real property would result in about a 75 percent reduction in the number and 40 percent decrease in dollar volume of individual real property appraisals required of inheritance tax appraisers. The fees for the appraisal of these smaller properties would also be paid into the State's general fund rather than to the individual inheritance tax appraisers. In 1963 such fees totaled about $400,000.

Under our proposal fees would continue to be paid to inheritance tax appraisers for their appraisal of real property with value of over $25,000, and for the specialized appraisals referred to above. A conservative application of the Commission proposal in 1963 would thus have provided approximately $1,150,000 in probate and inheritance appraisal and related fees to the State and $2,000,000 in such fees to the inheritance tax appraisers.

We also suggest that established tax liability be paid directly to the State rather than to the local county treasurer as at present. This procedure will permit the saving of $670,000 in inheritance tax commissions (1963) as well as provide an additional $300,000 in interest value through earlier receipt of taxes. Alternative arrangements, of course, will have to be made for the administrative and collection services now provided by the county treasurer.

In summary, based upon 1963 data the proposed system of inheritance tax administration would provide the following amounts to the State of California:

Source	Amount
County treasurer commissions	$ 670,000
Probate, Inheritance tax and related fees	1,150,000
Interest value of earlier receipt of taxes	300,000
Total	$2,120,000

From these amounts, the State would have to deduct the cost of additional legal and other professional personnel needed to audit the self-assessed returns, resolve conflicts, inventory the contents of safety deposit boxes, give clearance or release of liens now handled by county treasurers, and generally to increase the effectiveness of the inheritance tax administration program. We estimate that the net income to the State from the system as proposed herein would be in excess of $1,500,000 per year in addition to providing additional revenue from improved tax administration which would result from the attendant strengthening of the Inheritance and Gift Tax Division.

This proposal, in the judgment of the Commission, effectively meets past criticisms and deficiencies in the administration of the inheritance tax program and at the same time satisfies the requirements of the estate, the probate court and the state government in an efficient and equitable manner.

Respectfully,

Harold Furst

Harold Furst, Chairman
Assemblyman Milton Marks, Vice Chairman *
Assemblyman John T. Knox
Don B. Leiffer
State Senator George Miller, Jr.
Manning J. Post
Richard E. Sherwood
Roy Sorenson
State Senator Vernon L. Sturgeon
Dair Tandy
Frank D. Tellwright

* See statement of Assemblyman Milton Marks attached.

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STATEMENT OF ASSEMBLYMAN MILTON MARKS

I have long favored the concept of a consolidation of the revenue collecting agencies of the State of California and have introduced legislation to carry out this purpose. This legislation and alternative proposals relating to this subject are being studied by the Assembly Interim Committee on Government Organization of which I am the Chairman. While I have participated in the discussions of this Commission and support its endorsement of the principle of revenue consolidation, I feel it appropriate to await the January report of our Assembly Committee which might differ in certain particulars, and I am therefore not signing this report at this time.

/s/ Assemblyman Milton Marks, Chairman
Interim Committee on Government
Organization