What is Substandard Housing?
Substandard Housing is property in violation of the California state or local health and safety codes as determined by city or county regulatory agencies. Deductions for interest, taxes, amortization, or depreciation expenses are not allowed for substandard property during the time the regulatory agency determines the property is substandard.

When is a Notice of Noncompliance issued?
A Notice of Noncompliance is issued by a city or county regulatory agency when a property is not in compliance with local health and safety codes.

When is a Notice of Compliance issued?
A Notice of Compliance is issued by the city or county regulatory agency when a property previously determined substandard is brought into compliance with local health and safety codes and certified by the agency.

When is a Notice of Cancellation issued?
A Notice of Cancellation is issued by the city or county regulatory agency when a previously issued Notice of Noncompliance was issued in error.

Can the Franchise Tax Board make the substandard determination?
The Franchise Tax Board is not authorized to determine whether a property is substandard.

Why is the Franchise Tax Board assessing me if the problem is with the regulatory agency?
The Franchise Tax Board acts upon information received from the regulatory agencies. The Franchise Tax Board’s only duty regarding substandard property is to disallow any deductions claimed for interest, taxes, amortization, or depreciation on that property (California Revenue & Taxation Code Sections 17274 and 24436.5 relating to substandard property).

Where can I get more information on why the property is substandard?
The regulatory agency that issued the Notice of Noncompliance has more information.

What is the substandard period?
Property is substandard from the date of noncompliance to the date of compliance as determined by the regulatory agency. Even if the property is repaired, the property is considered substandard until the regulatory agency reinspects the property and issues a Notice of Compliance. If a Notice of Cancellation is issued, there is no period of time the property was substandard. Therefore, the Franchise Tax Board will not disallow the income tax deductions claimed for interest, taxes, amortization, or depreciation on that property.

How much time do I have to obtain a Notice of Compliance?
There is no time limit to obtain a Notice of Compliance from the issuing regulatory agency. However, income tax deductions for interest, taxes, amortization, and depreciation expenses are disallowed from date of noncompliance to date of compliance.

What do I do once I receive a Notice of Compliance or Notice of Cancellation?
Forward a copy of the Notice of Compliance or Notice of Cancellation to:
Substandard Housing Unit MS F-340
Franchise Tax Board
PO Box 1673
Sacramento CA 95812-1673

What if my property is in noncompliance only part of the year?
The deductions for interest, taxes, amortization, and depreciation are disallowed at a rate of 1/12 for each month the property is in noncompliance.

Are the deductions allowed if actually paid?
Deductions are allowable for interest, taxes, amortization, and depreciation expenses relating to substandard housing that occur after the property is brought up to standards, approved by the regulatory agency involved, and a Notice of Compliance is issued. Even if the expenses that occur during
the noncompliance period are paid, the expenses are not deductible for substandard property.

How will this affect my other properties? Expenses for interest, taxes, amortization, and depreciation are disallowed only on the properties deemed substandard by a regulatory agency. The local regulatory agency determines the address of the substandard property.

The Franchise Tax Board assessed me last year. Why am I charged again? A Notice of Proposed Assessment issued by the Franchise Tax Board is not a fine or a fee for substandard property. It is additional tax due on the increased taxable income from disallowed interest, taxes, amortization, and depreciation deductions for a particular tax year. Even if the property is repaired, the above stated deductions are not allowable during the substandard period. Therefore, if the substandard period includes more than one tax year, the Franchise Tax Board disallows any income tax deductions claimed for interest, taxes, amortization, or depreciation for each tax year the substandard condition applies to that property.

I made the repairs. Why is the Franchise Tax Board still disallowing the deductions? Property is substandard from the date of noncompliance to the date of compliance. The Franchise Tax Board will continue to disallow the income tax deductions during the substandard period. Even if the property is repaired, the property is considered substandard until the regulatory agency reinspects the property and issues a Notice of Compliance.

What if I don't own the property anymore? If you no longer own the property, income tax deductions are disallowed from the date of noncompliance to the date you sold the property.

What can I do to prevent the Franchise Tax Board from assessing me in the future? To prevent future assessments, you should bring the property into compliance with the health and safety codes. Until the property is repaired and reinspected by the regulatory agency, you can avoid assessments by the Franchise Tax Board by not deducting interest, taxes, amortization, or depreciation expenses associated with the property during the substandard period.

Assistance for persons with disabilities: We comply with the Americans with Disabilities Act. Persons with hearing or speech impairments please call TTY/TDD (800) 822-6268.