



Lead Committee: Taxation and Government Finance

Level of Government Committee: Legislative

Fall 2013

RETAINING PROPOSITION 13 PROTECTIONS FOR RESIDENTIAL PROPERTY IN A SPLIT ROLL

THE QUESTION

Should C.A.R. revise its position on the property tax split roll issue?

ACTION

Optional.

POSITION

1. Sponsor legislation which implements a property tax split roll system that retains the Proposition 13 protections for all residential property (i.e., single and multifamily).
2. Support legislation which implements a property tax split roll system that retains the Proposition 13 protections for all residential property.
3. Appoint a task force to study the issue.
4. Other (e.g., support legislation that prevents commercial property owners from avoiding reassessment upon transfer).
5. Do Nothing. As a result, if legislation were to be introduced that would retain the Proposition 13 protections for all residential property, C.A.R. would oppose the legislation since existing C.A.R. policy opposes any property tax split roll.

DISCUSSION

Generally speaking, under Proposition 13 county assessors determine a property's value upon a change of ownership and a property tax limited to 1 percent of that value is imposed. Under a split roll, however, not all properties on the assessment roll are treated equally. Typically, a split roll would require owners of commercial properties to pay property taxes at a rate higher than that imposed on homeowners or have their property reassessed more frequently.

Because Democrats are at or near a super majority in both the state Assembly and Senate, business interests believe that an attempt will be made next year to enact a split roll. Since Proposition 13 is part of the state constitution, any amendment to Proposition 13 can only be placed on the ballot by a two-thirds vote of both houses of the legislature. As such, does it make sense for C.A.R. to revisit its opposition to a split roll particularly in a political environment where split roll proponents may well offer to exclude all residential properties?

There are a couple of aspects of commercial property that distinguish it from residential property. First, commercial property can escape reassessment despite a change of ownership through "loopholes" in existing law. For example, if ownership is transferred to several companies with no transfer being greater than 50 percent of the value of the property then no reassessment will take place. Second, existing owners of commercial property are advantaged over new purchasers of such property. As noted in the April 8, 2013, Legislative Analyst's Office report *Taxing Commercial Property*,

[the acquisition value assessment] system can present an economic barrier to entry for new businesses. If a competitor has been in the same location for a number of years, a new business faces comparatively higher property taxes and therefore higher operating costs. This can discourage the formation of new businesses and reduce their profitability relative to other businesses.

While it's true the system may result in a homebuyer paying significantly higher property taxes than their neighbor with essentially the same type of home, the homebuyer is not in business competition with their neighbor. If commercial and residential properties are substantively not the same should they be taxed in the same manner?

One concern regarding the split roll system most commonly proposed is that the increased property taxes on commercial residential property would be passed on to the residents of multi-family housing units and corporation owned single family residential developments. However, could such properties be protected in a modified split roll system? Put another way, could commercial residential property be treated the same way as single family residential property? In addition, could a modified split roll specify that Proposition 13's 1 percent property tax limit still applies to non-residential commercial property but that the property must be reassessed to current market value periodically; for example, every 3 years?

Split roll opponents could argue that authorizing an increased property tax rate for commercial properties would have the disadvantage of keeping in place the disparity between the property tax bills of old and new businesses. Proponents could counter, however, that periodic reassessment of commercial property would address side-by-side disparities and the most common criticism of the acquisition value assessment system, namely that for commercial properties it can lead to unfairly low property tax bills because transfer of ownership of the property can be avoided.

Should C.A.R. revise its position on the property tax split roll issue?