A SPLIT ROLL PROPERTY TAX PRIMER

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NEED TO KNOW FACTS

396,000

... or more jobs would be lost as a result of a split-roll property tax.

OBJECTIVE

Proposition 13 eliminated the guesswork in determining a property's value.

$9 BILLION

A split-roll property tax would cost taxpayers about $9 billion each year.

HOMES

More than 30 years later, homeowners remain the greatest beneficiaries of Proposition 13.

WHAT PROP. 13 DOES

- *Sets property tax rate at 1% of assessed value.*
- *Limits property tax increases to inflation and new construction, plus voter-approved bonds and debt.*
- *Protects property owners from guesswork of county assessors.*

Background

Proposition 13 was approved by California voters on June 6, 1978, following years of rising property taxes and legislative inaction. Among other things, the initiative provides that locally assessed real property is taxed at a rate of 1 percent of value and an additional rate to cover local voter-approved indebtedness, such as bonds. The Proposition 13 tax rate generally is applied to the acquisition value (often the price paid to purchase the property, plus new construction), plus inflation (limited to 2 percent per year) – this is known as the "base-year value."

Since passage of Proposition 13, opponents of the initiative have sought to impose a "split-roll property tax" – one in which residential and business property would be taxed under different rules. Opponents argue that the property tax burden has shifted to homeowners, and that business properties are avoiding property taxes. The reality is that business and investor-owned properties pay the largest share of the property tax under Proposition 13. Part of this is due to the fact that any time a property owner adds improvements (such as a new room, office, warehouse, etc.) or undergoes substantial remodeling, county assessors likely will reassess the value, increasing the property taxes owed for that property. Also, a change in ownership may cause a property to be reassessed. The State Board of Equalization (BOE) is required to review the practices and procedures of all 58 county assessors to ensure that they are properly assessing properties throughout the state.

BOE data shows that homeowners have remained the greatest beneficiaries of Proposition 13 – paying approximately 38 percent of the property tax, compared to 62 percent paid by business and investor-owned residential properties.[1]

What Is a Split Roll?

The California Constitution requires that all local property be assessed in a uniform manner, and taxed at a uniform rate. Proposals to enact a split-roll tax would change this by creating different rules for business property.

Each county has an assessment "roll" that publicly documents assessed values for all local business and residential property. The term "split roll" is derived from the idea of dividing the assessment roll into categories – usually homes and businesses – and taxing these categories differently.

One of the key provisions of Proposition 13 is that property taxes are based on a property's acquisition value or 1975 base-year value. A property's purchase price is an objective value – there is no guessing what the property might be worth. A split-roll tax could change this by requiring assessors to estimate the "fair market value" of business property.

Under one type of split-roll property tax, business property would be reappraised periodically to determine an estimated market value – a subjective value that a property might sell for if it were on the market at the time the appraisal occurred. When determining value, an assessor would be allowed to consider the property's "highest and best use," rather than simply its actual use. For example, an assessor could rule that property used for a mom-and-pop bakery in the financial district of a big city would be more valuable if the bakery were replaced with a high-rise office building, and could value the property as if the high-rise already was there.

Fiscal Effect

A split-roll property tax would cost families and employers between $8.2 billion and $10.2 billion in additional property taxes annually by 2019-20.[2] More importantly, a split roll would result in more than 396,000 layoffs or other lost jobs.[3]

Higher taxes resulting from a split-roll property tax largely would be passed on to families and small businesses that rent space under a "triple net lease."[4] In a triple-net lease agreement, a property owner leases space to a tenant under an agreement that for the duration of the lease, the tenant is responsible for paying the building's property taxes, insurance, and the cost of maintenance and repairs. Since this is one of the most common forms of business property leases, and most business firms have fewer than 100 employees, a split-roll property tax would "almost certainly directly impact small firms the most."[5]

Arguments in Favor of a Split Roll

Proponents of a split roll argue that owners of business properties are not paying their "fair share," and that since passage of Proposition 13, owners of residential property now pay the greatest share of the property tax. Proponents claim that 72 percent of the property tax is paid by owners of residential property, while 28 percent is paid by businesses. The proponents of a split roll also argue that the billions of dollars in taxes imposed by their proposal would provide more money for government programs and services.

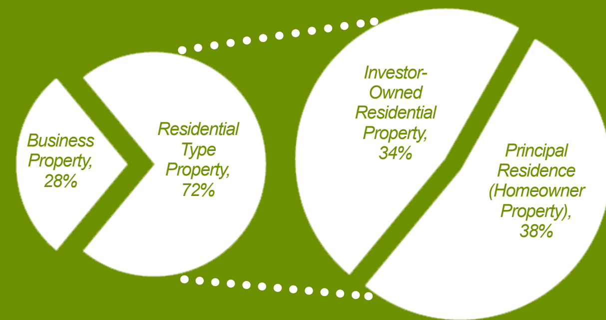
Arguments Against a Split Roll

Opponents of a split roll argue that a multibillion-dollar tax increase caused by the change would have damaging effects on California's economy by dramatically increasing the cost of living for individuals, working families and employers. Opponents also say that split-roll supporters are using misleading numbers to falsely imply that homeowners are not being treated fairly. **While 72 percent of the property tax is paid by residential-type property owners, homeowners make up only a small portion of that figure (38 percent).** The bulk of residential property includes apartments, second or third homes, vacation property, and homes owned by investors.

WHO PAYS THE PROPERTY TAX?

The share of the property tax paid by homeowners has decreased since passage of Proposition 13 – 42% in 1979-80 to 38% in 2013-14.

2013-14 Assessments by Property Type



Source: State Board of Equalization.

ENDNOTES:

1. Gutierrez, Robert. *California Tax Facts: An Overview of the Golden State's Tax Structure*. Sacramento: California Tax Foundation, 2015.
2. Ito, Jennifer, Justin Scoggins, and Manuel Pastor. "Getting Real About Reform: Estimating Revenue Gains from Changes to California's System of Assessing Commercial Real Estate." USC Dornsife 2015.
3. Frates, Steven B. *An Analysis of Split Roll Property Tax Issues and Impacts*. Pepperdine University School of Public Policy. Malibu: Davenport Institute, March 2012.
4. Alberro, Jose, and William G. Hamm. *The Economic Effects of California Adopting a Split Roll Property Tax*. September 2008.
5. Frates, Steven B. *An Analysis of Split Roll Property Tax Issues and Impacts*. Pepperdine University School of Public Policy. Malibu: Davenport Institute, March 2012.