

UNDERSTANDING CALIFORNIA'S PROPERTY TAX BURDEN

WHAT IS PROP 13?

Approved by voters in 1978, Proposition 13 created uniform property tax rules that protect property owners from uncertainty, while providing a stable and growing revenue for local government.

- Sets the tax rate at 1 percent of a property's assessed value.
- Limits property tax increases to inflation (capped at 2 percent) and new construction, plus voter-approved local bonds and debt.
- Protects property owners from guesswork by county assessors.
- Requires state taxes to be approved by at least two-thirds of the Legislature, and local special taxes to be approved by at least two-thirds of voters.

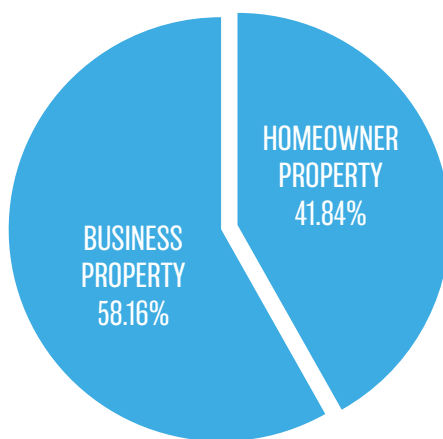
ABOUT SPLIT ROLL

Under a split roll property tax system, not all properties on the assessment roll are treated equally. Proposition 13 provides that property will be subject to the same rules regarding the maximum assessed value, assessment practices, and maximum tax rates.

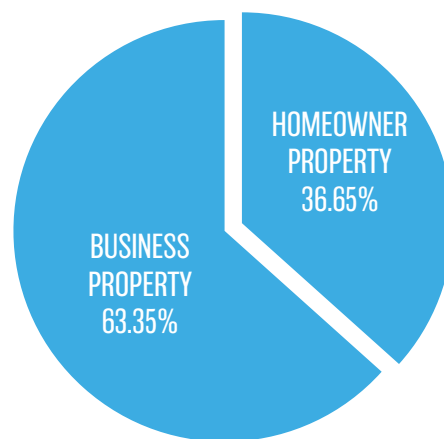
Since passage of Proposition 13, proponents of a "split roll" have claimed that the burden of the property tax has shifted to homeowners. However, data from the State Board of Equalization and findings from the Legislative Analyst's Office show that the burden has not shifted from business to homeowner property, and that homeowners remain the greatest beneficiaries of Proposition 13, as their cumulative burden remains lower than business owners' cumulative burden.

WHO PAYS THE PROPERTY TAX?

1979-80 ASSESSMENT PERIOD



2016-17 ASSESSMENT PERIOD



Business property includes all non-homeowner-occupied property (including commercial/industrial and residential investment property) subject to Prop. 13 assessments; homeowner property is owned and occupied as a principal residence, and owners have claimed the homeowners' exemption. Data from the State Board of Equalization.



The California Tax Foundation was established by the California Taxpayers Association in 1980 to promote sound tax policy and government efficiency through education and research.



BUSINESS PAYS ITS FAIR SHARE

The property tax burden has not shifted to homeowners. Business owners continue to pay the largest share of the property tax, and their share has grown.



STABLE, GROWING REVENUE

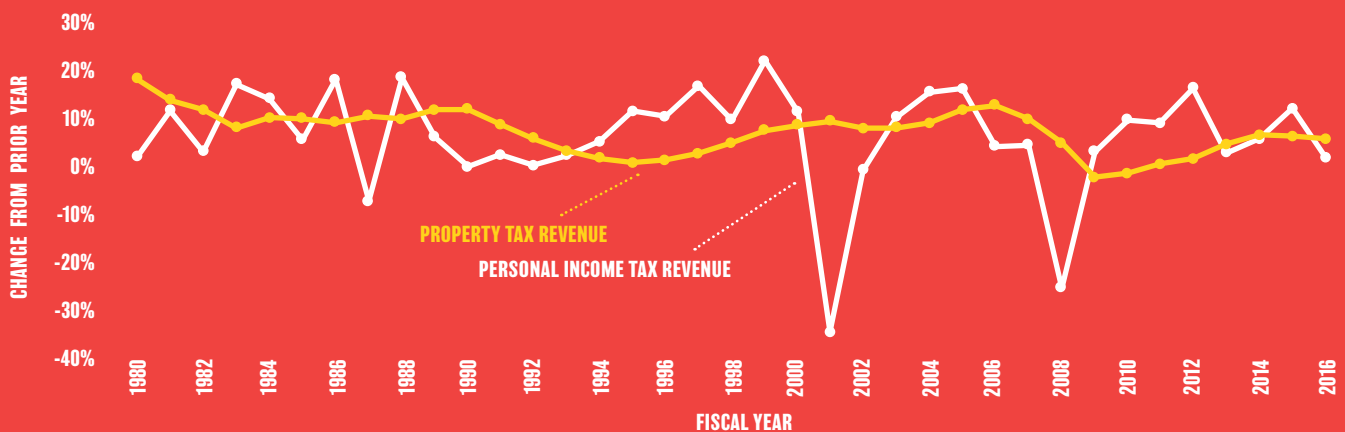
Proposition 13 protects local government from volatile changes in revenue.



NO MORE UNCERTAINTY

Proposition 13 uses an objective standard – the purchase price of the property, plus inflation. This generally eliminates the guesswork needed to value property.

HOW PROPOSITION 13 PROTECTS LOCAL GOVERNMENT



Compared to other taxes, the property tax under Proposition 13 has been, in the words of the Commission on the 21st Century Economy, “the most stable of major state and local sources” of revenue. This stability has protected local government from revenue shortfalls during economic downturns.

Sources: State Board of Equalization and Department of Finance.

AN OBJECTIVE STANDARD

Proposition 13 provides certainty to taxpayers by establishing an objective standard for taxing property (the price paid for the property, known as the “acquisition value”).

Prior to passage of Proposition 13, property owners paid taxes based on the estimated market value assigned to their property by assessors. Such assessments were based on guesses of what the property might sell for, or guesses regarding the maximum income a property owner might be able to earn from that property. When assigning a property its value, assessors use the property’s “highest and best use,” rather than its actual use. For example, assessors could find that a small bakery in the heart of a big city would be more valuable if the bakery were replaced by a high-rise office, and could value the property as such. Some split roll supporters would like to return to using market value estimates, allowing assessors to value property based on subjective opinions and uncertain assessments.