Protect Our Homes and Jobs: Vote NO on Property Tax Increase That Would Hurt Families and Businesses

(Initiative 17-0055 for the November 2020 Ballot, Not Yet Assigned a Proposition Number)

CALTAX POSITION

The California Taxpayers Association OPPOSES Initiative 17-0055, which repeals Proposition 13 protections, increases property taxes, and hurts families and small businesses. Regardless of whether businesses in our communities own or rent, this measure would make them pay higher property taxes, even if they can't afford it – leading to higher prices for everything we buy, including groceries, gas, restaurant meals, prescriptions, day care and much more. By voting "NO" on this measure, Californians can preserve fair, equal treatment for all property owners, and will send a strong message to special interests to keep their hands off Proposition 13.

DIGEST

This initiative is sponsored by the very people who would benefit most from a blank check to Sacramento politicians, and is bankrolled by the enemies of Proposition 13.

Proposition 13 is a constitutional amendment approved by voters more than 40 years ago to give California property owners a variety of important protections. Proposition 13 put an end to an unfair property tax system that overwhelmed property owners with large, unpredictable tax increases based largely on factors out of their control. Initiative 17-0055 would drag California back in time and subject many property owners to the uncertain guesswork of local politicians.

This measure would require the hiring of additional bureaucrats to oversee a process based on guesswork that creates significant uncertainty and volatility in the property tax system. It would require frequent reassessment of some business property based on subjective factors beyond their control.

MAJOR PROVISIONS

Requires Frequent Reassessment of Business Property. Beginning with the 2020 lien date, some business' real property (including non-residential and non-agricultural vacant land) would be reassessed at least once every three years, based on the assessor's opinion of the property's "highest and best use" – a subjective system that would allow assessors to set a higher value based on how a property *could* be used, rather than simply determining the value based on how it actually *is* used.

Limited Exemptions. A limited exemption from the reassessment requirement would be allowed if the market value of all property owned by the taxpayer in the state and used for business operations totals less than $2 million. This exemption could be repealed by future initiatives, and would be unpredictable for taxpayers, as the government's opinion of "market value" could change dramatically from year to year.

Another relatively minor exemption states that for businesses with more than 50 employees, up to $500,000 of tangible personal property (copy machines, computers, desks, etc.) would be exempt from taxation. For businesses with 50 or fewer employees, all tangible personal property would be exempt from tax.

Uses Property Tax Hike to Expand Size of Government. Up to 3 percent of the revenue generated from the property tax increase could be used to increase the size of local tax assessors' offices.

Removes Community Choice for Local Control of School Funds. Sends local funds to a state-controlled special fund in Sacramento, where state politicians would be allowed to earmark the money to certain communities.

Does Not Help State's Rainy Day Fund. The initiative specifies that revenue from the property tax increase will not be used to bolster the "rainy day" fund that protects California taxpayers from economic downturns.

A Blank Check for Sacramento Politicians. Under the state's Gann Spending Limit, if California's revenue reaches a specified limit, the state is required to return excess revenue to taxpayers. This initiative exempts itself from the limit. The measure specifies that revenue from the property tax increase would not be counted toward the cap, and taxpayers would never be eligible for property tax refunds if the state goes over the voter-approved spending limit.

FISCAL IMPACT

The Legislative Analyst's Office said the initiative "would influence some business' decisions about whether to expand in or move to California." The measure would increase property taxes paid by California employers by billions of dollars annually.

The analyst noted that the higher taxes would impact many businesses and California's economy by increasing costs for businesses "operating in California relative to other states."

BACKGROUND

Locally assessed real property – regardless of the type of property – has been treated equally throughout California's history. Commercial, industrial, residential and other types of property have been subject to the same assessment standards, tax rates, and rules.

Prior to passage of Proposition 13 in 1978, all property was regularly reassessed based on subjective standards utilizing a "highest and best use" appraisal method. Because these types of appraisals are not an exact science, taxpayers did not know what their property tax would be from one year to the next, and many were surprised by large property tax increases from year to year.

On the June 6, 1978, ballot, voters had two options to provide property tax relief: Proposition 8, placed on the ballot by the Legislature, which would have provided tax relief for residential properties while maintaining existing taxes on business property; and Proposition 13, which protected all taxpayers by limiting property tax increases, and continued the state's equal treatment of all property owners. Voters rejected Proposition 8, and approved Proposition 13 by a nearly two-to-one margin.

Voters also rejected a property tax increase on California employers when they overwhelmingly voted against Proposition 167 in 1992.

According to State Board of Equalization data, homeowners have been the largest beneficiaries of Proposition 13. Businesses paid approximately 58 percent of the total property tax burden in 1979, and approximately 63 percent in 2016-17. There has not been a shift in the property tax burden from businesses to homeowners – in fact, businesses now pay approximately 5 percent more of the total property tax burden than they did prior to passage of Proposition 13.

State data also shows that the assessed value of business property has grown an average of 7.3 percent annually and homeowner property has grown an average of 6.34 percent since passage of Proposition 13.

POLICY CONSIDERATIONS

One of the Single Most Damaging Tax Policies. A property tax increase on California's home-state employers is an ill-advised idea that would imperil the state's economy, and would be one of the single most damaging tax changes that could occur in this state. Like people, businesses buy property they can afford. This initiative will hit businesses with large tax increases, in some cases years after they bought property that had a property tax bill they thought they could afford. For small businesses and mom-and-pop stores that are struggling to make it, this initiative makes things much worse.

The initiative's impact would be widespread, affecting all Californians. Nothing in this initiative would stop a business from passing increased taxes on to consumers in the form of higher prices for everyday goods, including gas, groceries, clothing and health care. The mere proposal of the tax causes concern about the uncertainty of California's business climate, and has a chilling effect on businesses moving into California or expanding in this state.

Fewer Jobs, Reduced Wages. A property tax increase on employers will reduce commercial and industrial investment in California, resulting in fewer jobs and lower wages. Academic studies say this type of "split-roll" tax will lower investment in California, and employers will migrate out of the state in search of better, lower-cost opportunities. Higher business property taxes also reduce after-tax productivity of labor, and since wages are based on productivity, wages will decline, making it more difficult for California's working class to afford basic goods, services and housing.

Higher Consumer Prices. Increasing the cost of doing business in California will result in higher costs for consumer products. This translates to a regressive cost increase that hits California's low- to middle-income families the hardest.

Worsens Housing Crisis. This property tax increase would provide a fiscal incentive for local governments to approve commercial and industrial property development over housing development, at a time when many parts of the state face crisis-level housing shortages.

Creates Uncertain Property Tax Assessments. Unlike an acquisition-value assessment, a market-value assessment could change dramatically from year to year. This results in uncertainty for taxpayers. The current property tax system is based on an objective standard – the acquisition value of property, determined by buyers and sellers. In contrast, market-value assessments involve the guesswork of county assessors' staff – and assessors' opinions of value could vary dramatically from county to county and from property to property, leading to greater inequities and assessment problems.

Creates Volatility in School Funding. Property tax assessments under Proposition 13 are the most stable of major state and local revenue sources, and annual local tax and fee revenue has increased $47 billion since passage of Proposition 13. By changing the assessment standards for many property owners, this initiative would create unstable funding for local governments and schools. Downturns in real estate markets would significantly affect revenue for local governments, many of which already face budgeting challenges and rising costs from existing liabilities.