

JUNE 4, 2020

Overview of Initiative Measure to Change Tax Assessment of Commercial Property

PRESENTED TO:

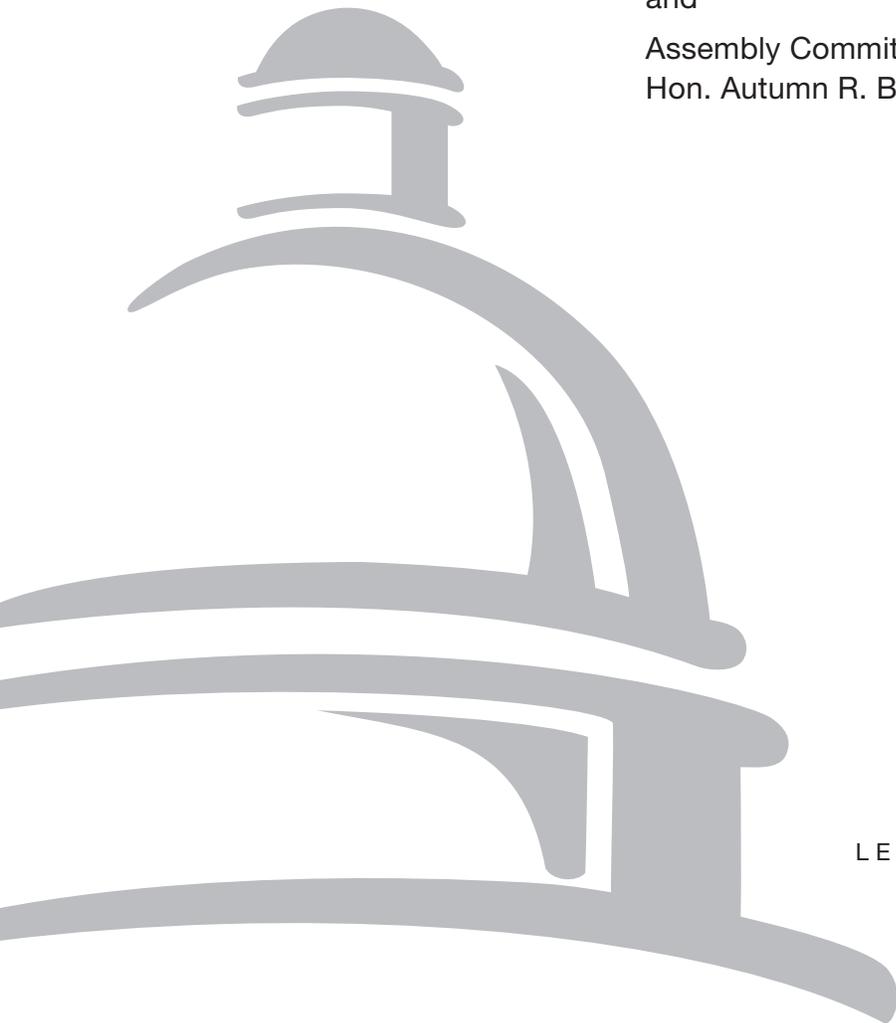
Assembly Committee on Local Government

Hon. Cecilia M. Aguiar-Curry, Chair

and

Assembly Committee on Revenue and Taxation

Hon. Autumn R. Burke, Chair



LEGISLATIVE ANALYST'S OFFICE

Property Tax Background

Local Governments Tax Property. California cities, counties, schools, and special districts collect property taxes from property owners based on the value of their property. Property taxes raise around \$65 billion each year for these local governments.

Taxed Property Includes Real Property and Business Personal Property. Real property is land and buildings. Business personal property includes things like equipment, machinery, computers, and furniture.

Taxable Value of Real Property Based on Original Purchase Price. In the year real property is purchased, its taxable value typically is its purchase price. Each year after that, the property's taxable value is adjusted for inflation by up to 2 percent. When a property is sold again, its taxable value is reset to its new purchase price. The taxable value of most real property is less than its market value because market values typically grow faster than 2 percent per year.

Taxable Value of Business Personal Property Based on Market Value. Unlike real property, business personal property is taxed based on how much it could be sold for today.



Initiative Proposal

Tax Commercial Real Property Based on Market Value. The measure requires commercial real property to be taxed based on market value instead of original purchase price. This change is phased in over a number of years beginning in 2022. The change does not start until 2025 for properties used by California businesses that meet certain rules and have 50 or fewer employees. Housing and agricultural land continues to be taxed based on its original purchase price.

Some Lower Value Properties Not Included. This change does not apply to a commercial real property owned by a person or business who owns less than \$3 million worth of property in California (adjusted for inflation every two years).

Reduce Taxes on Business Personal Property. The measure reduces the taxable value of each business's personal property by \$500,000. Businesses with less than \$500,000 of personal property pay no taxes on those items. All taxes on business personal property are eliminated for California businesses that meet certain rules and have 50 or fewer employees.



Fiscal Effects

Increased Taxes on Commercial Real Property. Most owners of commercial real property worth more than \$3 million would pay higher property taxes. These higher taxes would be phased in over several years. By 2025, taxes would be higher for most commercial properties. Beginning in 2025, total property taxes from commercial land and buildings probably would be \$8 billion to \$12.5 billion higher in most years. These new revenues would be more volatile than existing property tax revenues.

Decreased Taxes on Business Personal Property. Property taxes on business personal property probably would be several hundred million dollars lower each year.

Money Set Aside to Pay Costs of the Measure. The measure sets aside money for various costs created by the measure. This includes giving several hundred million dollars per year to counties to pay for their costs of administering the measure.

New Funding for Local Governments and Schools. Overall, \$6.5 billion to \$11.5 billion per year in new property taxes would go to local governments. 60 percent would go to cities, counties, and special districts. The other 40 percent would go to schools and community colleges.

