
A Split Property Tax Roll: A Brief Summary of Legal and Administrative Considerations

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Before the Commission on the 21st Century Economy

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Proposition 13:

California Constitution Article XIII A

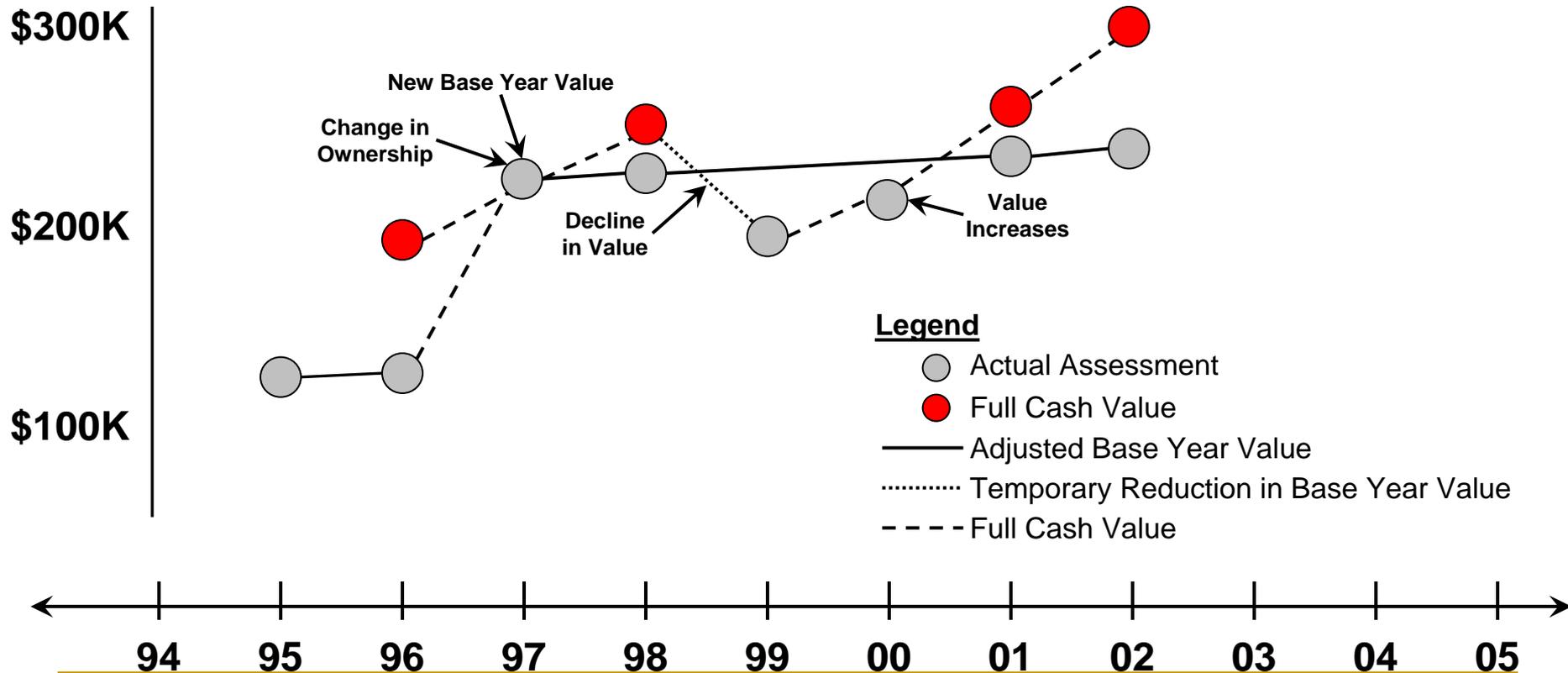
1. Rolled Back Property Values to 1975 Lien Date
 - Original Base Year Value
 - Effective 1978-79 Fiscal Year
2. Restricted Annual Increases in Assessed Value of Real Property to an Inflation Factor, Not to Exceed 2% Per Year
3. Prohibited Reassessment of a New Base Year Value except Upon:
(a) Change in Ownership or (b) Completion of New Construction
4. Limited property tax rate to 1%
5. Required 2/3 vote of the legislature to raise taxes

Proposition 13

- Stabilize neighborhoods
- Promotes property tax certainty
- Similarly situated taxpayers could pay vastly different amount of property taxes based on date of purchase
- Percentage burden of residential property vs. commercial property could increase

Value Changes Over Period of Years

This table charts relative levels of full cash value versus adjusted base year value, and the effects of a change in ownership, a decline in full cash value, and a subsequent increase in full cash value.



Percentage of Assessed Value of Homeowner Exemption Properties vs Total Assessed Value

1979-80	33.60%		1989-90	33.10%		1999-00	38.20%
1980-81	36.30%		1990-91	32.80%		2000-01	38.10%
1981-82	35.40%		1991-92	33.00%		2001-02	38.00%
1982-83	34.50%		1992-93	34.20%		2002-03	38.20%
1983-84	33.60%		1993-94	35.30%		2003-04	39.30%
1984-85	32.90%		1994-95	36.70%		2004-05	39.10%
1985-86	32.50%		1995-96	37.60%		2005-06	39.10%
1986-87	32.40%		1996-97	38.00%		2006-07	38.30%
1987-88	32.50%		1997-98	37.90%			
1988-89	32.60%		1998-99	38.10%			

- Share of assessed value from owner occupied homes has increased from 33.6% in 1979 to 38.3% in 2006. The percentage change from year to year varies and in some years has declined.

Split Roll: What is it?

- Generally - means of taxing certain types of real property according to a different standard of value or a different rate
 - Residential v. nonresidential
 - Direct ownership v. indirect ownership through legal entity
- Currently – split roll between state-assessed properties (e.g., public utilities, railroads) and county-assessed properties

Split Roll: Past Legislative Attempts

Year	Bill	Summary
2008	AB 2461 (Davis)	Study. Requires BOE to conduct study to determine amount of revenue that would have been generated if nonresidential commercial property had been reassessed at its FMV in the prior fiscal year, and report to Dept. of Finance and Legislature.
2005	SB 17 (Escutia)	Change in Ownership Definitions. Provides that a change in ownership occurs when more than 50% of the ownership interests in a legal entity (excluding publicly traded companies) are transferred to one or more persons or entities during a calendar year.
2003	SB 17 (Escutia)	Change in Ownership Definitions. Redefine change in ownership for nonresidential commercial and industrial property. (Legislative intent)
2003	ACA 16 (Hancock)	Annual Reassessment. Annual reassessment of nonresidential, nonagricultural property.
2003	SB 3X (Escutia)	Change in Ownership Definitions. Redefine change in ownership for nonresidential commercial and industrial property. (Legislative intent)
2002	SB 1662 (Peace)	Change in Ownership Definitions. Reassessment of nonresidential property when cumulatively more than 50% of the ownership has been transferred. Broaden the state and local sales and use tax base and reduce both the state and local sales and use tax rate. (Legislative intent)
2001	AB 1013 (Leonard)	Change in Ownership Definitions. Reassessment of property owned by a legal entity when more than 50% of the ownership shares transfer.
2000	AB 2288 (Dutra)	Change in Ownership Definitions. Reassessment of property owned by legal entity once every three years - Rebuttable presumption of change in ownership. Possible income tax credit to homeowners based on fair market value of homes from additional revenue. Reduce the sales and use tax rate by 0.25 percent.
1991	SB 82 (Kopp)	Change in Ownership Definitions. Reassessment of legal entities when cumulatively more than 50% of the ownership has been transferred.

Split Roll: Past Initiative Attempts

Year	Result	Summary
2005	Dropped	Annual Reassessment. In part, requires annual reassessment of all nonresidential real property excluding property used for commercial agricultural production. (Submitted by Roberta B. Johansen and James C. Harrison)
2005	Dropped	Split Tax Rate. Increases the tax rate on commercial real property except commercial residential rental property by either .30% or .50%. (Submitted by Roberta B. Johansen and James C. Harrison)
2005	Dropped	Split Tax Rate. In part, increases the maximum tax rate from 1% to 3% on nonresidential property; counties set the actual rate at no less than 2%. Limits the 1% tax rate on residential property to the first \$2 million. (Submitted by K. Heredia)
2005	Dropped	Annual Reassessment. Annual reassessment of all nonresidential real property excluding property used for commercial agricultural production and personal property exemption of first \$500,000.(Submitted by Lenny Goldberg)
2005	Dropped	Annual Reassessment. Annual reassessment of all nonresidential real property excluding property used for commercial agricultural production and personal property exemption of first \$500,000. (Submitted by Wayne Ordos)
2004	Signatures Collected & Initiative Dropped	Split Tax Rate. Increase tax rate to 1.5% nonresidential real property excluding property used for commercial agricultural production. Proponent: California Teachers Association & Rob Reiner
1992 Prop.167	Failed 41.16% - 58.84%.	Change in Ownership Definitions. Addressed a number of tax related items, including a provision to modify the change in ownership definitions related to legal entities. Proponent: California Tax Reform Association

Recommendation of California Commission on Tax Policy in the New Economy

- Periodically reassess non-residential property to market value without changing existing rates and in the context of improving the business climate in California.
- Some Commissioners had concerns that while periodic reassessment could correct tax disparities and therefore improve the business climate, it would also increase the tax burden on business.

Split Roll: Methods

1. Define “change in ownership” differently for residential and nonresidential property.
2. Redefine “change in ownership” for legal entities
3. Split rate/split inflation factor

Split Roll: Method 1 & Considerations

- Define “change in ownership” differently for residential and nonresidential property
 - Definitional issues
 - Vacant land
 - Mixed use property

Split Roll: Method 2

- Redefine “change in ownership” for legal entities
 - 50% transfer of ownership is a change in ownership, control not necessary
 - Periodic reassessment of real property held by legal entity (rebuttable presumption)

Transfer of Real Property

Individuals

Change in ownership of percentage of real property transferred

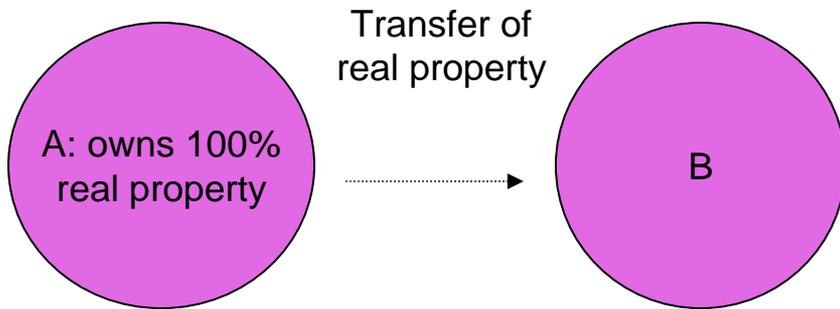
Legal Entities

The purchase or transfer of ownership interests in a legal entity does not constitute a transfer of the real property owned by the legal entity. 2 exceptions:

1. Change in Control. Person or legal entity obtains control of more than 50% of the stock of a corporation or majority ownership of a legal entity; and
2. Cumulative transfers of more than 50% of “original coowners” interests. (Only applicable when “proportional ownership interest” exclusion previously used.)

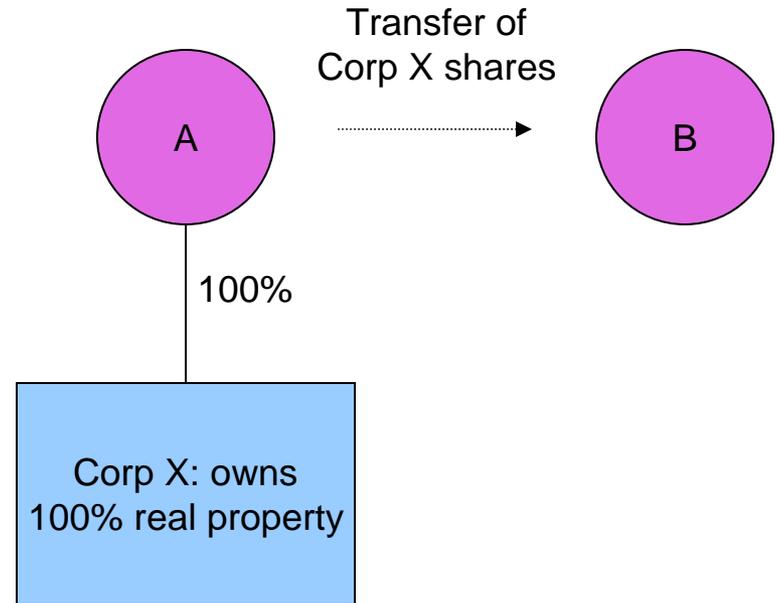
Property Transfer Examples

■ Individual



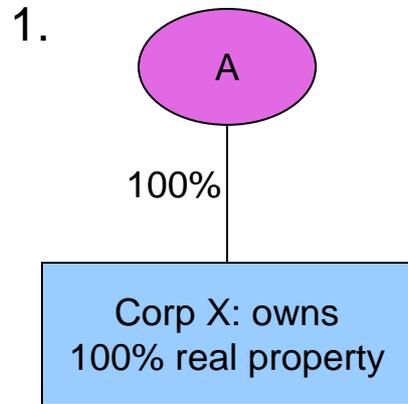
Results in change in ownership of percentage transferred (RTC 60)

■ Legal Entity

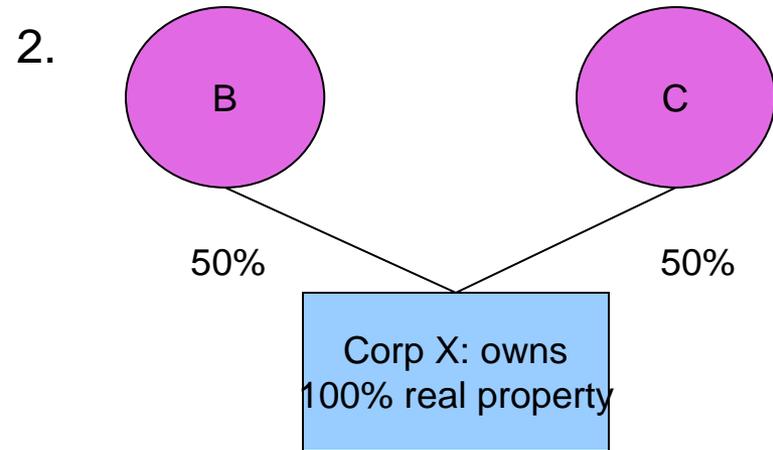


Results in no change in ownership unless greater than 50% of Corp X is transferred to B (RTC 64(a), (c)(1))

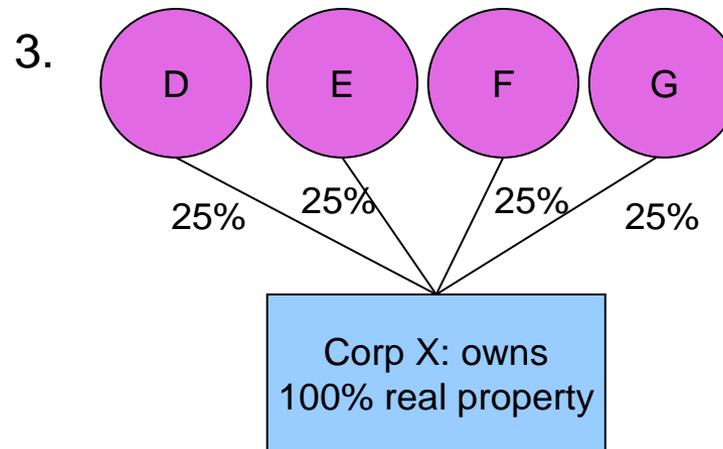
Property Transfer Examples



A transfers 50% of Corp X
to B and 50% to C



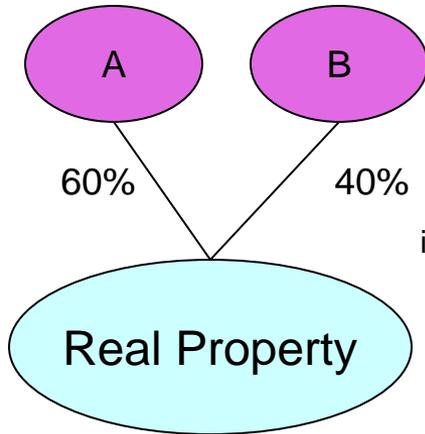
B transfers 25% each to D & E;
C transfers 25% each to F & G



Results in no change in ownership; can be done repeatedly

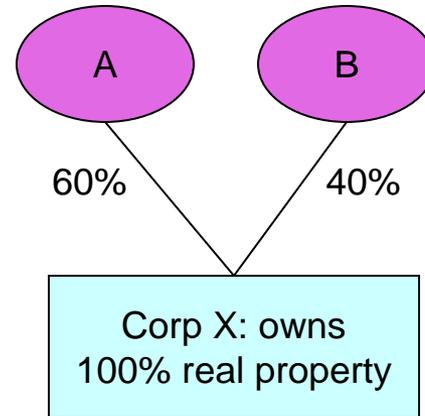
Property Transfer Examples – Original Coowners

1.

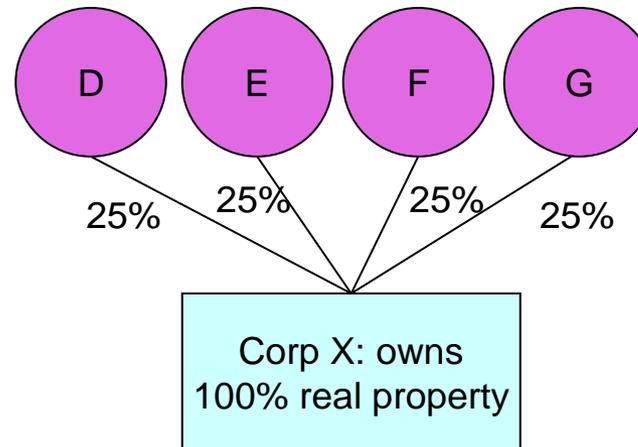


A & B transfer real property interests to legal entity – No CIO but A & B become “original coowners”

2.



3.



A & B make transfers such that D, E, F & G; each own 25% of the legal entity –

no control but more than 50% “original coowner” shares transferred

Results in 100% change in ownership

Split Roll: Method 2

- “Loophole” v. expected result
 - Proponents contend closure of a “loophole” allowing property owned by legal entities to escape reassessment.
 - Opponents contend contemplated by the 1979 Task Force on Property Tax Administration when choosing the “separate entity” approach to legal entities.
- Treat publicly traded corps differently?
- Rebuttable presumption that CIO occurs after a set number of years – how to track entity shares

Split Roll: Method 3

- Split rate or split consumer price index
 - 1% for residential property; higher rate for commercial/business property
 - Would require constitutional amendment

Split Roll: General Issues to Consider

- How much additional revenue?
 - Unknown: AB2461 would have required BOE to conduct study to determine amount of revenue that would have been generated if nonresidential commercial property had been reassessed at its FMV in the prior fiscal year
 - Decline in Values
- Potential effects on business
- Administrative Difficulties
 - Training and recruitment