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Economic Effects of a Split-Roll Property Tax in California

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April 9, 2009

Outline

- States with classified property tax systems
- Other states with assessment limits
- 1991, 1995, and 2002 disparity ratio studies
- Burden on single-family, owner occupied properties
- Effects on businesses
- Incidence of a split-roll property tax reform
- Business climate
- Volatility of California tax system

Classified Property Tax Systems

- Assessment ratios and/or tax rates vary according to the use-class of property
- 11 states assess residential property at a lower ratio of market value than other property
- 12 states apply a lower tax rate to residential as compared to other property
- 4 states both assess residential property at a lower ratio and tax it at a lower rate

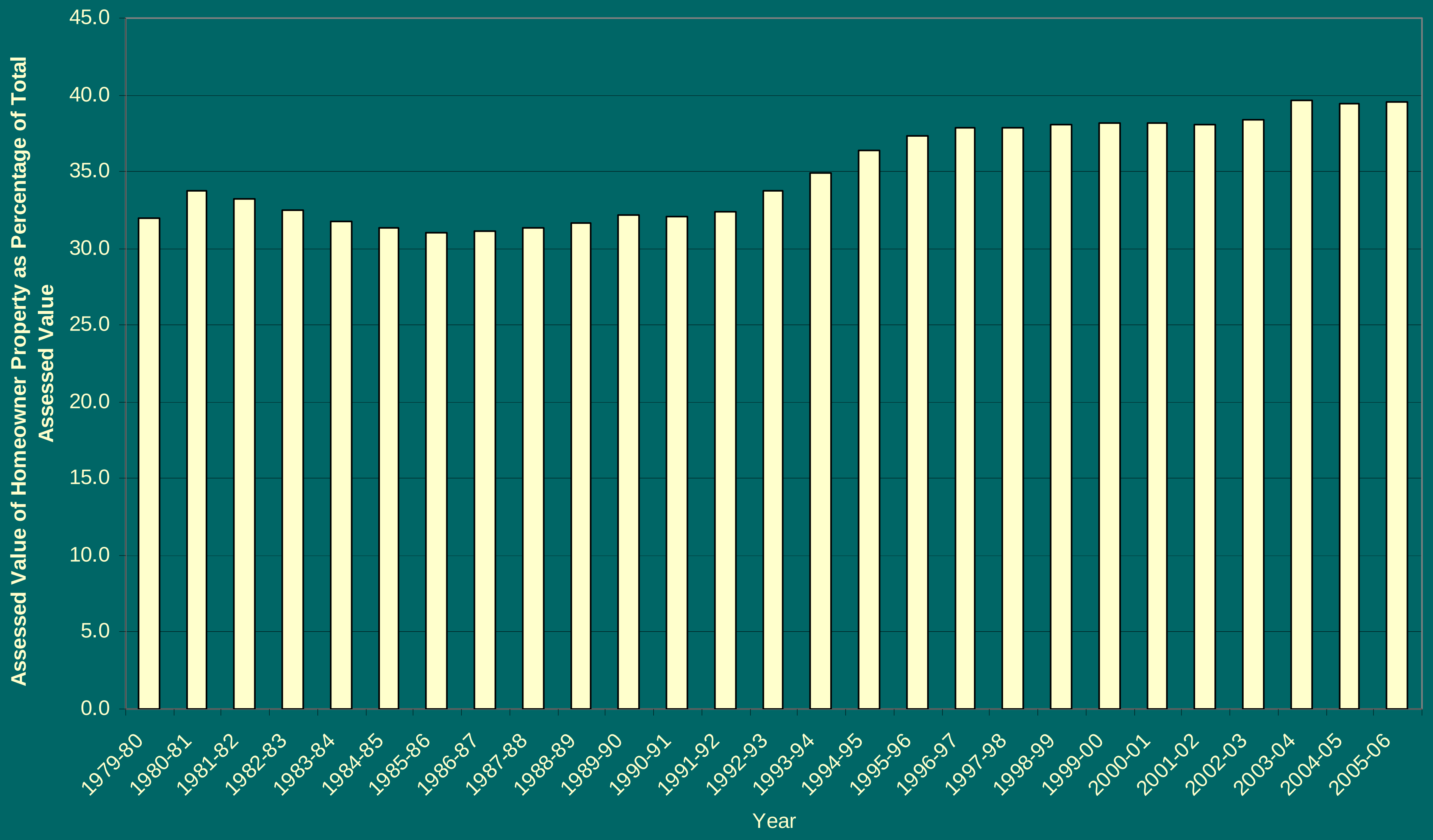
Assessment Limits

- Assessment limits restrict the annual increase in assessed value to a specified percentage of the previous year’s assessed value.
- Assessment limits currently in use vary along several dimensions including the type of property to which it applies
- 19 states and the District of Columbia have some form of assessment limit in place
- 12 of these states exclude business property
- 7 states apply their limit only to homestead (owner-occupied residential) property

Commercial/Industrial Property in Los Angeles County

		1991	1996	2002
Disparity ratio: 1975 base year properties	Non-modified	5.66	3.23	4.00
	Modified	4.19	2.34	2.40
Percentage of properties with 1975 base year	Non-modified	36%	29%	18%
	Modified	44%	43%	23%
Revenue ratio: AV/MV	Non-modified	0.48	0.82	0.64
	Modified	0.38	0.63	0.63

Homeowner Property Tax Burden



Prop 13 Effects on Business Behavior

- Businesses face a moving penalty under an acquisition-value based property tax system
- Firms delay their moves to new, more suitable properties causing inefficiencies
- Firms that move frequently are more likely to rent rather than own the properties they use
- Puts new businesses at a disadvantage relative to established competitors
- Taxes new investments at full market value while failing to tax the increases in value to longtime owners

Incidence of a Split-Roll Property Tax

- Much of the increase in assessed value will come from increasing the assessment of substantially undervalued commercial/industrial land and will not distort investment incentives
- The burden of any tax increases would be borne by these landowners who are concentrated at the higher end of the income distribution
- These tax increases would also generate a smaller excess burden than most alternatives

Business Climate

- Mark, McGuire, and Papko (2000): personal property taxes and sales taxes have large negative effects on employment growth
- Harden and Hoyt (2003): the corporate income tax has the most significant negative impact on employment growth
- Gupta and Hofmann(2003): firms tend to locate in states with lower income tax burdens

California's Business Tax Ranking

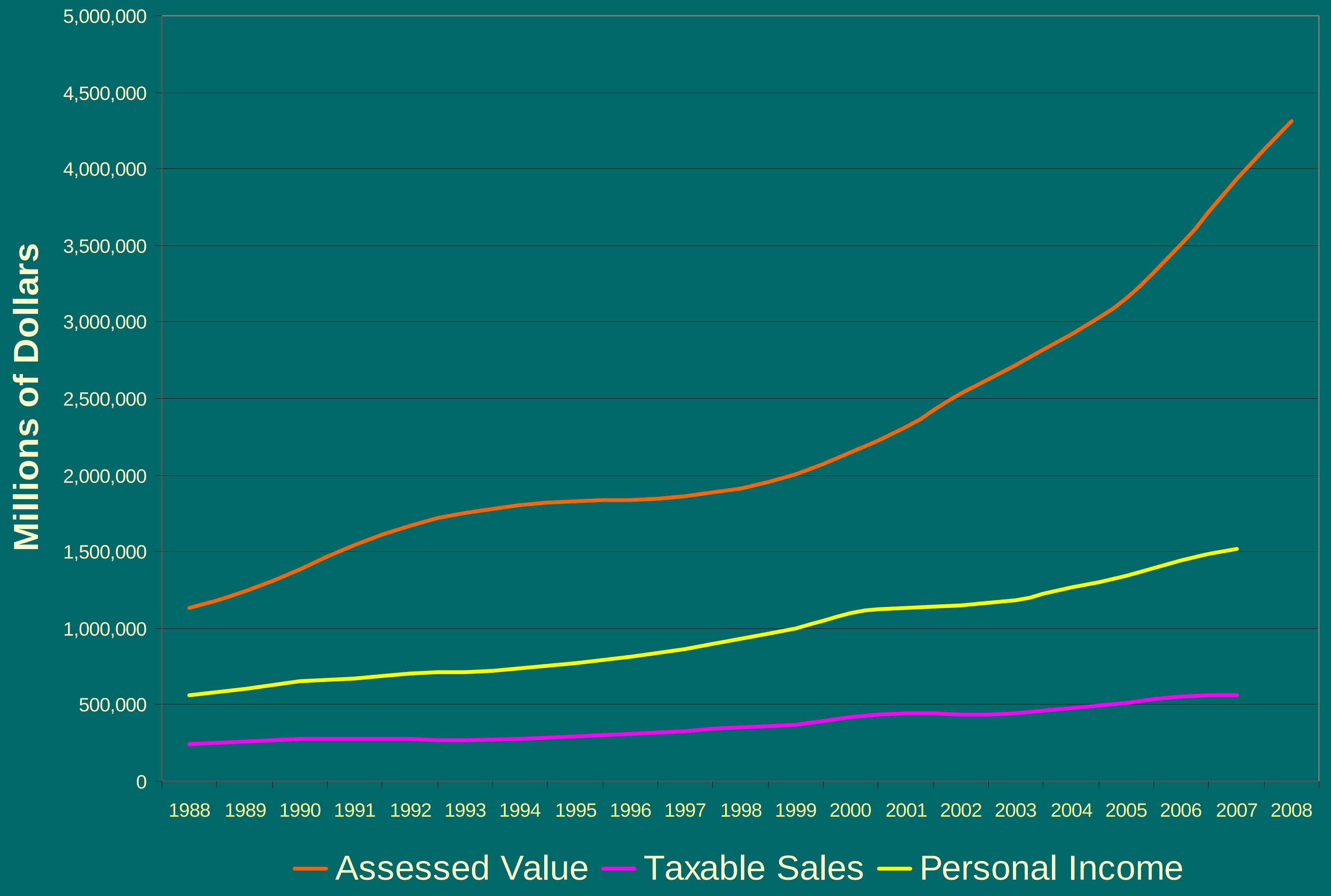
According to the Tax Foundation's 2009 State Business Tax Climate Index:

- California's overall rank is 48
- California's corporate tax rank is 45
- California's individual income tax rank is 49
- California's sales tax rank is 43
- California's property tax rank is 15

According to Ernst & Young’s estimates for 2008:

- The ratio of business taxes to expenditures that benefit business was 1.67 for CA, below the U.S. average of 1.83
- Business taxes as a percent of GSP was 4.6% in CA, below the U.S. average of 4.9%
- The business share of tax growth from 2002 to 2008 was 38.6% in CA, below the U.S. average of 45.6%

California Tax Bases



Annual Growth Rates of California Tax Bases