California Property Tax Development

SCA 5, introduced by State Senators Loni Hancock (Oakland) and Holly Mitchell (Los Angeles), proposes a constitutional amendment that would change California's property tax assessment system. There are two primary features to the legislation:

- Commencing Jan. 1, 2018, the amendment would remove Proposition 13 change in ownership protections from commercial and industrial properties businesses, and require all commercial and industrial property to be assessed at fair market value annually. There would be a five-year phase-in of regular fair market value reassessments for certain commercial and industrial property owners.
- Effective Jan. 1, 2019, the amendment would exempt from taxation the first $500,000 in value of tangible property used for business purposes.

Increased revenue resulting from adoption of the amendment will be primarily directed at community colleges, school districts, charter schools, and county offices of education. If approved by two-thirds of the Legislature, the measure would be placed on the November 2016 ballot.

SCA 5, if passed, would implement a significant change to California's property tax treatment of businesses. On one hand, there is a benefit in the exemption of the first $500,000 of tangible personal property (approximately $5,000 per year maximum savings). This exemption, of course, will both simplify the personal property tax system and provide a helpful financial benefit to small businesses up and down the state. On the other hand, for a large number of businesses, any savings from the new personal property exemption will be more than offset by an increase in real property taxes either directly assessed against them as real estate owners, or passed through to them under the terms of their lease agreements.

Through the recent real estate slumps, the property tax has remained one of California's most stable sources of revenue. This proposed amendment, if submitted to and approved by the 2016 electorate, will likely lead to more volatility in this revenue source. Thus, in boom periods, there will be a large supply of funds, and in bust periods, governmental funding will be reduced. If history is any guide, this means that substantial regular swings may occur in a very short time period.

All real estate owners and businesses should monitor this bill to determine how it might affect their future operations.

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