



Split Roll Fact Sheet

AB 2492 Attacks Proposition 13

Increasing Property Taxes Will Only Hurt California's Small Businesses, Consumers, Jobs and the Economy

AB 2492 (Ammiano), attacks Proposition 13 and imposes a split roll property tax under new, complex change-in-ownership rules that create a very cumbersome administrative bureaucracy for taxpayers and assessors alike. This bill takes a "guilty until proven innocent" approach, requiring taxpayers to prove every three years that they did NOT undergo a change-in-ownership that would trigger reassessment. Moreover, this approach is based on the faulty assumption that there has been a major statewide shift in tax burden from businesses to homeowners. We are OPPOSED to this bill for the following reasons:

- **Proposed Legal Entity Change-in-Ownership Provisions Are Fallacious and Do Not Assess Tax Based on Change In Actual Ownership or Control.** Under current law, when an individual obtains more than 50 percent of ownership or control in a corporation, a property reassessment is triggered. AB 2492's legal entity change-in-ownership provisions are twofold: First, a legal entity is reassessed annually on property in proportion to the ownership interests that have been transferred, and this is called a "change in ownership." Thus, if someone owns a 15 percent interest in a small company and transfers 12 percent, this is considered to be a triggering event for purposes of change-in-ownership with respect to the 12 percent interest transferred. Second, all of the foregoing transfers are accumulated over multiple assessment years, and when more than 50 percent of the interests in the legal entity are transferred, all property owned by the legal entity is reassessed under this bill. Accordingly, a part owner whose shares have transferred may be reassessed numerous times. In the example above, the property is reassessed first when the part-owner transfers the 12 percent interest and, second when all of the interests transferred by multiple owners total 50 percent. This is administratively unworkable and an unfair tax burden on taxpayers who may not have control of a legal entity, but face multiple triggering events for purposes of reassessment of the property owned by the legal entity.
- **Reassessment of Property Based on Indirect Ownership of Any Percentage Turns Current Property Tax Law on its Head.** AB 2492 presumes a change-in-ownership has occurred for properties that are indirectly owned (i.e.; has any ownership interest) by a publicly traded company when cumulatively more than 50 percent of the ownership interests

in a publicly traded company are transferred. The ambiguous language in the bill attempts to trigger reassessment of all California properties in which a publicly traded company has any ownership interest whatsoever. This approach is not legally sound and will be challenged in court. Current law and common sense dictate that there should be an actual shift in company control for a change-in-ownership triggering reassessment to be deemed to have occurred.

- **Presumption of Change-in-Ownership Every Three Years Creates an Enormous Burden for Assessors and Taxpayers.** Most companies do not undergo a change-in-ownership every three years. Yet this bill would require either taxpayers or assessors to file paperwork to demonstrate that a change-in-ownership has not occurred for all properties directly or indirectly owned by that company. This would result in extensive costs to the taxpayer and to the assessors to file and process rebuttals by taxpayers. The assessors simply are not equipped with adequate staff and resources to analyze or file rebuttals or to reassess properties every three years. This process will completely overload the assessment appeals boards. Moreover, this approach is a guilty until proven innocent approach that simply is contrary to basic notions of fairness, and evidence has not been presented that such an approach is necessary to address any established problem.
- **Bad for the Economy and Consumers.** The LAO also found that a split roll would increase costs to businesses due to higher property taxes, which could result in higher product prices, reduction in employee salaries, as well as a reduction in overall economic activity. Moreover, higher prices on products and services would make California's industry less competitive in national and global markets.
- **Hurts Small Businesses.** The split roll also would adversely impact small businesses because their rental costs would increase with higher property taxes. Commercial buildings, shopping centers, and business parks all are held in corporate ownership and most commercial leases allow for increases in rent to reflect increased property taxes. Smaller businesses would be less able to absorb a sudden rent increase due to reassessment, and would likely close down if split roll were enacted.
- **Results in Revenue Volatility.** A reassessment split roll would increase volatility in property tax revenue; revenue would be directly impacted by the market fluctuations of property values from year to year as well as ownership changes. Proposition 13 stabilized the flow of property tax revenue to local government by locking in acquisition values and allowing those values to increase slowly from year to year. From the enactment of Proposition 13 in 1978 until 2008, the assessed values subject to the acquisition value method have increased at an average annual rate of 8.4%. Were Proposition 13 not in place during the recent economic downturn, revenue would be substantially reduced.