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Split Roll SB 17 Fact Sheet

A split-roll property tax represents a massive increase in cost for business. This increase will result in costlier consumer products and a less-competitive climate for California industry to expand and create jobs. Such a move would imperil the state's economy and would be the single most damaging tax policy change that could occur in California.

The split roll being proposed would reinterpret the change-of-ownership rules of business property to trigger a reassessment when there is sale of more than half of a company's stock. It would bring billions of dollars into the coffers of local government.

From what is known about the economic impacts of split roll, it remains a destructive, ill-advised idea. Consider these effects:

- Even the most limited split roll will increase taxes by billions of dollars annually. The Governor's Office of Planning and Research (OPR), analyzing Proposition 167's split-roll scheme of 1992, said it would boost taxes by as much as $2 billion a year, a figure that obviously would be higher today.

- OPR also found that a split roll would reduce the number of jobs in California by nearly 75,000 within two years and cause personal income in the state to fall by $11.4 billion. Voters rejected that initiative.

- Split-roll property taxes are new hidden taxes on consumers, because businesses will raise prices of products to cover the higher tax.

- Higher prices on products and services will make California industry less competitive in national and global markets.

- Hidden taxes from a split roll will result in larger, more expensive government that is less accountable.

- Retirees whose pension funds invest in California industries will see the value of their funds reduced as these businesses become less competitive and less profitable.

- Employees who desire to live and work in California will see other states, even other countries, try to entice business operations out of California. Canada, for example, has used tax incentives to lure considerable movie-making business away from California.

- A return to market value assessments will return to the evils of the assessment theory of "highest and best use." Assessors will value many properties on the basis of higher use, with higher taxes forcing the taxpayer to move on.

- A return to market value assessments shifts taxes from an objective standard ("sales price") to a subjective one ("assessors' <u>opinion</u> of value"), leading to unfair assessments and more appeals.

- The split roll also adversely impacts small businesses because, even though their stock may not be publicly traded, if they lease space, the cost of rent will increase as a result of split roll property tax reassessments. Commercial buildings, shopping centers, and business parks are all held in corporate ownership and most commercial leases allow for increases in rent to reflect increased property taxes.

- Recent studies comparing actual market values to assessed values for property tax purposes show that assessed values for property tax purposes of business properties are far more closely aligned with actual market value than are residential dwellings.

Administrative Obstacles:

- The stock change split roll is administratively unworkable. There could be a change of ownership numerous times each year for some companies. This will require constant reporting of the changes. For the assessor, it will mean property must be revalued each time a change occurs, meaning hundreds of reappraisals each year. And with each reappraisal a supplemental roll tax bill will have to be issued. Taxpayers would have the right to appeal the value of the property after each reappraisal, overburdening the assessment appeals system.

  Some have suggested that the multiple reassessments could be deferred. We do not think this would be constitutional under Proposition 13. When there is a change of ownership, and the split roll proposal defines the stock change as a change of ownership, Proposition 13 provides that the full cash value of a property is the appraised value when a change of ownership occurs. This means the value has to be determined after each change of ownership. There seems to be little flexibility on this point.

- The split roll will result in huge increases in property tax administrative costs, as assessors must revalue property after each change of ownership, requiring many more appraisers to do reassessments.

- The split roll creates more volatility of local property taxes, leading to boom and bust revenue streams, (a big influx of revenue and additional spending, followed by a reduction as property values fall, forcing big cuts or increases in other taxes) which will cause problems similar to those caused by the volatility of the state's tax structure.