

CALTAX COMMENTARY: PARCEL TAXES ADD TO THE COST OF LIVING IN CALIFORNIA



By California Tax Foundation Director Robert Gutierrez

A local government official recently criticized businesses for the “good deal” they allegedly have received under Proposition 13, and said businesses can afford to pay higher parcel taxes. The comments are reflective of a trend in which local officials develop tax proposals without input from taxpayers, and design the taxes to target business owners.

Already, business and owners of non-homeowner-occupied property pay more than 60 percent of the property tax under Proposition 13 – a figure that has remained relatively unchanged since the tax reform initiative was approved by voters in 1978.

What has changed, however, is that since passage of Proposition 13, local governments have sought even higher property taxes in the form of parcel taxes.

A parcel tax is an additional form of property tax, usually based on a flat rate per parcel of land, and sometimes based on other factors such as a property’s square footage. The rise of the parcel tax has become a major concern, as the tax adds to the cost of owning and renting property in California, and often gets passed from businesses to consumers in the form of higher prices for goods and services.

In 2014, the California Tax Foundation, a research organization established by CalTax in 1980, released “Piecing Together California’s Parcel Taxes,” a study that found that the parcel taxes have wide disparities throughout the state, and the tax is quickly increasing the cost of property ownership. The foundation’s Center for Special Taxes continues to update this information on its online list of all local taxes on property.

On July 1, eight new parcel taxes went into effect, with a cumulative cost to taxpayers of more than \$11.4 million a year. The eight new taxes include two that impose varying rates, intended to target business property owners:

- The “San Marino Public Safety Tax,” approved in November, has 14 different rates. The tax, which will cost taxpayers \$3 million annually, is imposed even on churches and nonprofit properties, both of which are exempt from property taxes under California’s constitution.
- The “South Pasadena Library Tax,” a flat-rate charge based on a property’s square footage, acreage, or number of residential units.

So far this year, voters have approved parcel taxes that will cost taxpayers more than \$50 million annually. Included is a precedent-setting tax imposed in all nine counties of the San Francisco Bay Area. That tax is imposed at a flat rate of \$12 per parcel, at a total cost of \$25 million per year for 20 years. Voters in four of the nine counties rejected

the tax, but will have to pay because their votes were overwhelmed by the votes in the other counties that supported the tax.

The parcel tax maze will get even more complicated if voters approve higher taxes in the upcoming elections.

One of the costliest proposals on the November ballot is a parcel tax in Los Angeles County that would be based on the square footage of buildings located on each parcel of land. The proposed tax was developed after the county completed an “assessment needs study” that asked local park employees for a “wish list” of park projects (although the tax is targeted primarily at business property owners, they were not asked for their input on the proposal). The county has launched a taxpayer-funded “educational campaign” to advocate for the tax, under the banner of [#WeNeedParks](#).

We do need parks – we also need schools and critical services. And we need jobs, small businesses and a thriving economy to generate the money to pay for these needs.

Additionally, taxpayers need a fair deal, and a voice in how tax proposals make their way to the ballot. Excluding business owners from early conversations about taxes that will impact the business climate is a bad idea, and only adds to the lack of transparency in government.

In the coming weeks, many counties, cities and special districts will place measures on the November ballot. Here are some suggestions for local governments that are considering parcel taxes:

- **Sunset Dates.** All parcel taxes should sunset after about 10 years. A parcel tax that has a short sunset date of two to four years will prompt more frequent elections – increasing election costs for local governments – while a tax that stays on the books longer than 10 years will not have enough voter oversight.
- **Inflation.** Parcel taxes adjusted for inflation should not increase by more than the statewide average annual increase in the California Consumer Price Index. Currently, some parcel taxes increase by a set percentage each year, without accounting for actual economic conditions.
- **Exemptions.** Parcel taxes should apply only to properties that are subject to ad valorem property taxes. If a local government chooses to exempt certain properties from a parcel tax, property owners should be able to claim the exemption in a simple manner that minimizes the compliance burden. Currently, many local governments allow parcel tax exemptions for seniors age 65 or older, but they require the seniors to submit forms every year to verify that they still qualify for the exemption!
- **Refunds and Legal Challenges.** Local governments should offer taxpayers a means of challenging the imposition of a tax, and a way to seek a refund if the tax is improperly collected or is struck down by the courts.

- **Election Timing.** Parcel tax elections should be consolidated with primary and general elections, to maximize participation by the taxpayers who will be impacted. The all-mail special elections that many local governments currently use have two major flaws: they are more expensive than regularly scheduled elections, and they draw far fewer voters.

Taxpayers should monitor their local governments to ensure that these safeguards are in place, and should give close scrutiny to any proposal that would increase the property tax burden in California.