

March 12, 2012

# California's Property Tax

LEGISLATIVE ANALYST'S OFFICE

Presented to:  
Assembly Revenue and Taxation Committee  
Hon. Henry T. Perea, Chair





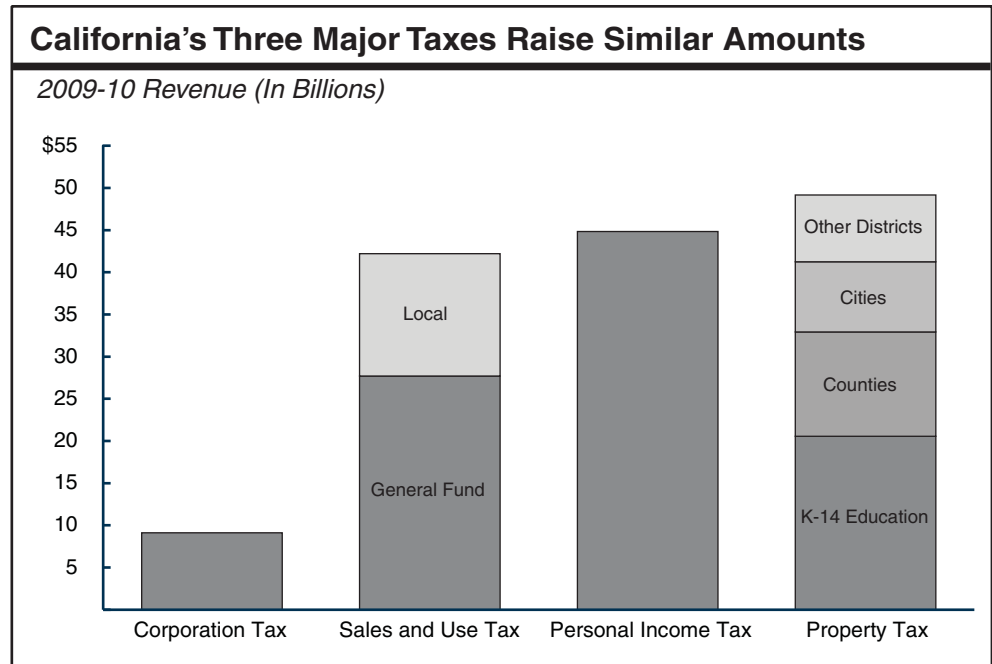
## Overview of the Property Tax

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- Annual 1 Percent Tax.** The property tax is levied on the assessed value of real property (land and buildings) as well as personal property (boats, aircraft, equipment, and machinery). With voter approval, local governments may levy additional property taxes to repay locally issued debt for infrastructure.
- Real Property Is Assessed at Acquisition Value.** Most properties are reassessed to market value when (1) a change-in-ownership occurs or (2) new construction takes place. Only the improved portion of the property is reassessed to market value following new construction.
- Assessed Value Increases by Up to 2 Percent Annually.** Assessed value increases each year by the lower of inflation or 2 percent. Inflation has averaged 4.1 percent each year since 1978.
- Personal Property Is Assessed at Market Value.** Personal property (primarily equipment, machinery, boats, and aircraft) is assessed each year at market value, adjusted for depreciation.
- Many Properties Are Exempt.** Most real property owned by schools, religious organizations, charities, hospitals, and governments is exempt from the property tax.
- Proposition 8 (1978) Provides Temporary Tax Relief.** When market values fall below assessed values, assessors adjust property values downward. The property's assessed value then changes each year according to its market value. When a property's market value becomes greater than its acquisition value (adjusted by the Proposition 13 inflation factor), the property is governed again by Proposition 13.
- Property Tax Payments Are Deductible From Other Taxes**



## Property Tax Revenue

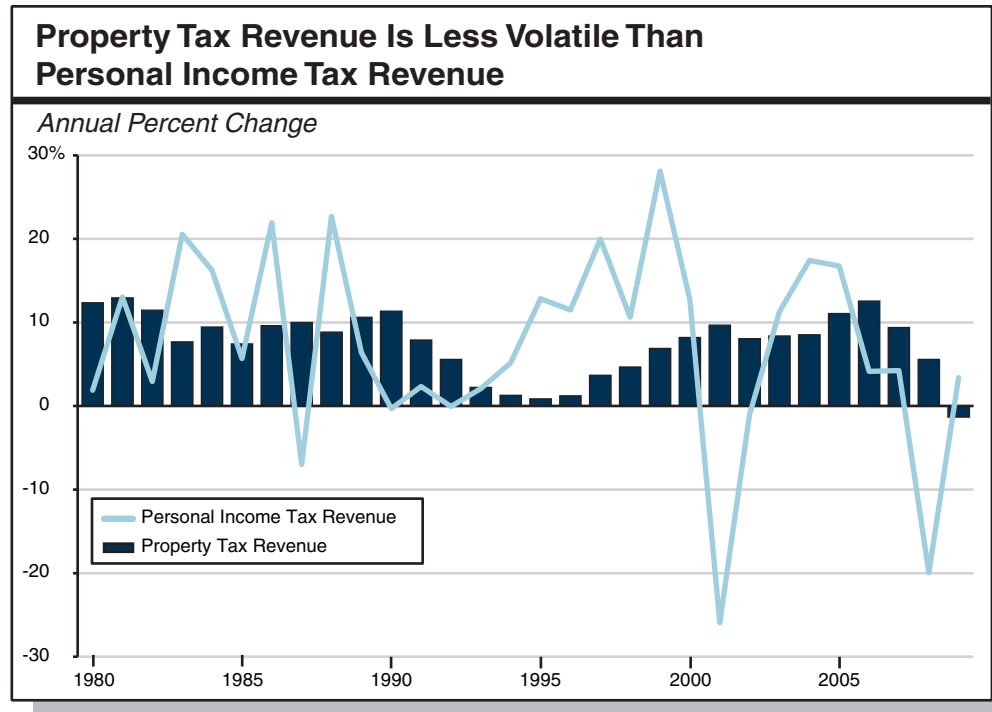


***The Property Tax Raises Significant Revenue for Local Governments.***

Property taxes are collected at the county level and distributed to local governments—cities, counties, schools, special districts, and until recently, redevelopment agencies. Tax revenue generated from property within a county does not leave that county. County property taxes allocated to schools generally offset state General Fund spending for K-14 programs.



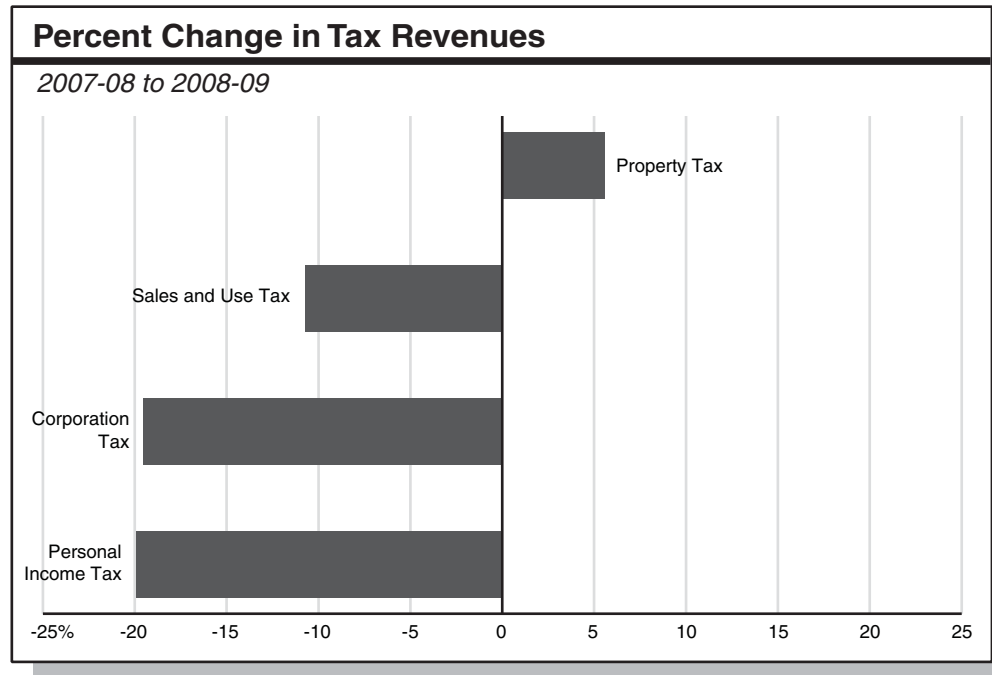
## Revenue Stability



***Acquisition Value Taxation Contributes to Revenue Stability.*** Property tax revenues fluctuate less from year to year than other major revenue sources. Because only a fraction of properties change ownership each year, only a small number of properties are reset to market value each year. The assessed value of other properties increase by up to 2 percent. During real estate slumps (and booms), these two provisions tend to dampen the short-term impact of changes in the real estate market.



## The Property Tax and the Recent Recession



***Despite Recession, Property Tax Revenues Remained Stable.*** Property tax revenues increased throughout the recession while other major revenue sources declined significantly.



## Assessed Value of Various Property Types

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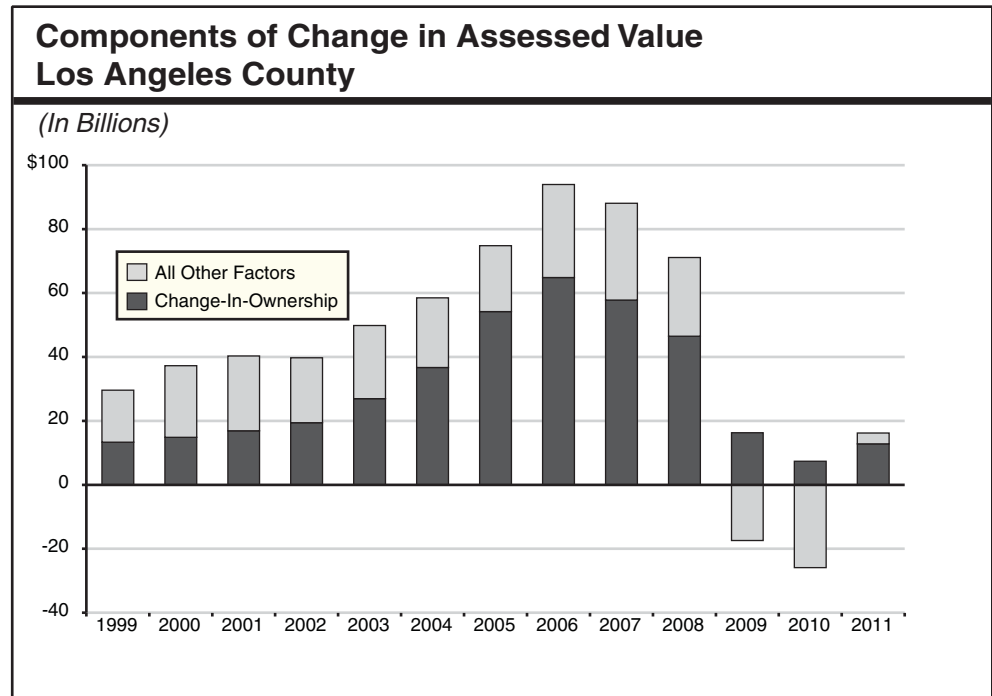
*(2010-11)*

Property Type	Assessed Value (In Billions)	Percent of Total
Single-Family Homes	\$2,209	53%
Multi-Family and Other Residential	770	19
Commercial/Industrial	891	22
Agricultural and Other Non-Residential	272	7
<b>Total</b>	<b>\$4,141</b>	

- The Total Assessed Value of “Business Property” Depends on How We Define Non-Owner-Occupied Residential Property**
  
- Not All Single-Family Homes Are Owner-Occupied.***  
 Approximately 24 percent of single-family homes in California are rental properties or non-primary residences (second homes).



## Change-in-Ownership



**Total Assessed Valuation Changes Each Year Based on a Number of Factors, Including:**

- Change-in-ownership
- New construction
- Proposition 13 inflation adjustments
- Proposition 8 decline-in-value adjustments



## Change-in-Ownership

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*(Continued)*

- Change-In-Ownership Appears to Represent the Bulk of Year-to-Year Growth in Countywide Assessed Valuation**
  
- Evidence From Los Angeles and Santa Clara Counties.*** Between 1999 and 2011, change-in-ownership, on average, accounted for somewhat more than one-half of the change in countywide assessed valuation each year.