



Split Roll Property Tax Fact Sheet

What is Split Roll? A split roll is the basic notion that business property should receive less constitutional protection under Proposition 13 than residential property, and it comes in many different forms. The two main forms of split roll are:

- **Stock Change Split Roll.** A stock change split roll would reinterpret the change in ownership rules of business property. Currently, a change-in-ownership that triggers reassessment of business property occurs when there is a sale of more than half of a company's stock or ownership interests to a single shareholder or owner. A stock change split roll would deem a change in ownership to have occurred when more than half of a company's stock or ownership interest changes hands without regard to whether the majority interest lies with any single individual or entity.
- **Traditional Split Roll.** A traditional split roll would reassess business properties at fair market value at set intervals. For example, while a residential property would not be reassessed to the fair market value until the property is sold to another owner, under a split roll system, business properties would be reassessed on an annual, bi-annual, or other periodic basis.

Why is Split Roll Wrong for California? A split roll property tax would represent a massive increase in the cost of doing business in California when market values are high, as property taxes would increase with the market. This increase would result in higher lease and rental prices, higher prices on consumer products, and a less-competitive climate for California's businesses 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.

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

- **Tax Increase.** Even the most limited split roll would increase taxes by billions of dollars annually. The Legislative Analyst Office (LAO) estimated that a 2005 measure that would have changed assessment of business property to reflect fair market value (a "split roll" initiative) would have resulted in a \$3.5 billion gross increase in property tax revenues.
- **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 lease and rental prices, higher product prices, reduction in employee salaries, as well as a reduction in overall economic activity.
- **Hurts Small Businesses.** A 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 legal entity 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 likely would close down if split roll were enacted.
- **Makes California Less Competitive.** Higher prices on products and services would make California industry less competitive in national and global markets.

- **Hurts Retirees.** Retirees whose pension funds invest in California businesses and business properties would see the value of their funds reduced as these businesses become less competitive and less profitable.
- **Leads to Unfair and Subjective Tax Policy.** Before Proposition 13, assessors used the theory of “highest and best use,” which meant that the property value was determined by considering the “highest and best use” of the property, rather than the actual use. A return to market value assessments would return to this assessment theory, which was partly responsible for the property tax revolt that led to enactment of Proposition 13. Assessors would value many properties on the basis of a higher use, with higher taxes forcing the taxpayer to move on. Moreover, a return to market value assessment would shift taxes from an objective standard (“sales price”) to a subjective one (“assessors’ opinion of value”), leading to unfair assessments, more appeals and potential for corruption.
- **Business Property Owners Do Not Use More Public Services and Should Not Pay Higher Taxes than Residential Property Owners.** Businesses and homeowners share a common interest in good schools, good roads, safe streets, safe water and other governmental services. If property taxes were treated like user fees, residential property owners may be called upon to pay even more than business properties.
- **Results in Revenue Volatility.** A split roll would increase volatility in property tax revenue; revenue would be directly impacted by the fluctuation of property values from year to year. Proposition 13 stabilized the flow of property tax revenue by locking in acquisition values and allowing those values to increase slowly from year to year. The overall result has been a 7% average increase in property tax revenue from year to year. Were Proposition 13 not in place during the recent housing downturn, revenue would be substantially impacted.
- **Increases Administrative Burden and Costs to Assessors.** A split roll would increase administrative costs and workload on county assessors, who would be required to revalue business property annually, or in the case of a stock-change split roll, upon each change in ownership.

The stock change split roll would be administratively unworkable. There could be a change of ownership numerous times each year for some companies. This would require constant reporting. For assessors, it would mean property must be revalued each time a change occurs, leading to hundreds of reappraisals each year. With each reappraisal, assessors must issue a supplemental roll tax bill. 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 in ownership, and the split roll proposal defines the stock change as a change in ownership, Proposition 13 provides that the full cash value of a property is the appraised value when a change in ownership occurs. This means that assessors would have to determine the value after each change in ownership. There seems to be little flexibility on this point.

- **No Immediate Revenues.** A split roll would not result in current revenue that could be used to balance a current budget. Assessors would need to significantly augment staff before they could begin reassessing properties. Property tax payments would not come in until fiscal year after the lien dates, and only then could that revenue be counted for the following year’s budget.