



State Board of Equalization

News Release

Bill Leonard, Member

2nd District – Sacramento

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For Immediate Release
November 30, 2009

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Negative Inflation Spurs First Time Property Tax Reductions

Most California homeowners will see a slight decline in property tax bills, according to Board of Equalization (BOE) preliminary estimates of a negative inflation factor, or deflation, of 0.237 percent, it was announced today by Bill Leonard, 2nd District BOE Member. The decline in taxes owed will be about \$2.60 per \$100,000 in assessed value.

"I encouraged BOE staff to find that the inflation index factor that goes up-- and sometimes down-- should result in tax decreases when it actually does go down", said Leonard. "I am very pleased that the BOE has issued this ruling."

This is the first time such a broad scale reduction in property tax base year values has occurred. Since the passage of Proposition 13, the inflation factor has never before been negative, and in all but five years the annual adjustment has been capped at 2 percent.

The preliminary estimate is based on U.S. Bureau of Labor Statistics Consumer Price Index (CPI) numbers released mid-November. The official inflation factor, the California Consumer Price Index (CCPI), is calculated by the California Department of Industrial Relations using the same price data. The official CCPI number will be released soon, following which the BOE will notify county assessors of the rate to apply to assessed property values. This official notification will come through a Letter to Assessors released in December.

BOE staff released an opinion in September of this year determining that if deflation occurred during October 2008 through October 2009, all Proposition 13 base year values must be adjusted downward to reflect the deflation.

Nearly all real estate in California is assessed under the terms of Proposition 13, the 1978 ballot initiative that generally requires real property to be taxed on the basis of its fair market value as of the most recent change in ownership. Under Proposition 13, once such a base year value is established, it must be adjusted in subsequent years by an inflation factor, but any increases resulting from these annual adjustments are capped at 2 percent per year.

The announced adjustment factor will be reflected in assessments made as of January 1, 2010. The base year adjustments will be reflected on tax bills sent out in October 2010 and due by December 10, 2010 and April 10, 2011. Property taxes are collected by local county tax collectors and are used at the local level to fund local programs and services.

Even with this base year value reduction reflecting deflation, some property owners may not see a reduction in their properties' assessed values. An example of where this would occur is if the assessed value has already been reduced due to recent market declines. Those property owners could actually see an increase in the annual

assessed value and resulting tax bill. Proposition 13 requires the assessor to use this higher current market value for the 2010 assessment, provided this value does not exceed the property's factored base year value.

While the savings for the 2010 year is minimal for most taxpayers, about \$2.60 for every \$100,000 in assessed value, had the 2 percent inflation adjustment occurred that has been typical since the passage of proposition 13, the corresponding increase to the homeowner would have been about \$22 for every \$100,000 in assessed value. The following table offers one example:

2009	2009	2009	2010	2010	2010	2010	
Base Year Value	Average Tax Rate	Tax Owed	Calculated Inflation Adjustment	Base Year Value	Average Tax Rate	Tax Owed	Change in Tax Liability
\$250,758	1.098%	\$2,753	-0.237%	\$250,164	1.098%	\$2,747	\$-7

2009	2009	2009	2010	2010	2010	2010	
Base Year Value	Average Tax Rate	Tax Owed	Hypothetical Full Inflation Adjustment	Base Year Value	Average Tax Rate	Tax Owed	Change in Tax Liability
\$250,758	1.098%	\$2,753	2.000%	\$255,773	1.098%	\$2,808	\$55

For more information, visit the BOE website: www.boe.ca.gov

Bill Leonard, of Sacramento/Ontario, was elected as the Second District Member of the State Board of Equalization in 2002 and reelected in November 2006. Prior to his election, Bill Leonard served in the State Assembly (1978-1988, 1996-2002) and in the State Senate (1988-1996).

The five-member California State Board of Equalization (BOE) is a publicly elected tax board. The BOE collects more than \$53 billion annually in taxes and fees supporting state and local government services. It hears business tax appeals, acts as the appellate body for franchise and personal income tax appeals, and serves a significant role in the assessment and administration of property taxes. For more information on other taxes and fees in California, visit www.taxes.ca.gov.

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