



State Board of Equalization

News Release

Steve Shea, Acting Member

4th District – Los Angeles

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Steve Shea: Property Taxes May Drop Statewide

Property taxes statewide may drop for most homeowners if the inflation factor continues to be negative, it was announced today by Steve Shea, Acting Fourth District Board of Equalization Member. This determination was decided in a Board of Equalization staff opinion released today.

The California Department of Industrial Relations calculates the California Consumer Price Index (CCPI) using price data published by the U.S. Bureau of Labor Statistics. If negative inflation (deflation) occurs over the 12-month period ending in October 2009, then all Proposition 13 base year values must be adjusted downward to reflect the deflation, according to the opinion.

Each year the Board of Equalization announces the applicable inflation adjustment factor. Since in most years inflation has exceeded 2 percent, the announced factor has usually reflected the 2 percent cap. On five occasions inflation has been less than 2 percent. In those years the announced factor has been positive, but less than 2 percent.

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.

If deflation is determined in October, this deflation factor will be used to calculate the adjustment factor for January 1, 2010 assessments on real property. To reflect such deflation, the announced adjustment factor for assessments made as of January 1, 2010, would result in a decrease in base year values. This would be reflected on tax bills sent out in October 2010 and due by December 10, 2010 and April 10, 2011.

In more than thirty years since the passage of Proposition 13, the annual inflation adjustment has never been negative. However, the current adjustment could be negative depending on how the price level changes between now and October. The CCPI dropped sharply (three percent) between October 2008 and December 2008. However, it has been rising steadily ever since. If the prices of gasoline and other items continue to rise through October 2009, the inflation adjustment could be zero, or positive, in which case a relative stabilization or increase in base values would occur.

Today’s staff opinion determines that if inflation turns to deflation in any year, the adjustment factor must go negative. The question had never before been fully analyzed.

Even if base year values are reduced to reflect deflation, however, not all property owners may see a reduction in their properties’ assessed values. An example of where this would occur is when a property is assessed at current market value for 2009 and its market value has increased for January 2010. 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.

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

Steve Shea assumed the role of Acting Board Member, 4th Equalization District, on July 16, 2009. Previous to being sworn in as Acting Board Member, Steve served as Chief Deputy Director to 4th District Board Member, Judy Chu, Ph.D. The 4th District of the Board of Equalization represents over 8 million residents in Los Angeles County.

The five-member California State Board of Equalization 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.

[Letter to Assessors](#)
[Prop 13-Related Historical Inflation Adjustments](#)

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