

**BOARD OF EQUALIZATION  
LEGISLATIVE COMMITTEE**

Honorable Carole Migden, Chairwoman

Bill No: **AB 82**  
Author: **Dutton**  
Date: **01/06/03****SUBJECT:** Property taxes: homeowners' property exemption**DIGEST**

**Existing law** exempts the first \$7,000 of assessed value of an owner-occupied principal place of residence from property tax. This exemption is commonly referred to as the "homeowners' exemption." The Constitution gives the Legislature the authority to increase the amount of the homeowners' exemption provided that 1) any increase is funded by increasing the rate of State taxes in an amount sufficient to reimburse local governments for property tax revenue loss and 2) benefits to renters, which under current practice is granted through the renters' tax credit, are increased by a comparable amount.

**This bill** would, for property tax purposes, increase the homeowners' exemption from \$7,000 to \$32,000 and thereafter provide for annual inflation adjustments. For personal income tax purposes, it would increase the renters' tax credit from \$185 to \$370 for married couples filing joint returns, heads of households, and surviving spouses; and for all other individuals from \$60 to \$185 and thereafter provide for annual inflation adjustments.

**COMMENTS**

**Purpose:** To increase the amount of the homeowners' exemption to reflect inflation.

- Provides additional annual property tax savings of \$267 to 5.3 million homeowners.
- The exemption has not been increased in 27 years, since 1974.
- More than 20 attempts to increase the amount have been before the Legislature since 1985.
- Arguments against these increases is that Proposition 13 instituted in 1978 provided sufficient property tax relief, and controls and concern with its fiscal impact.
- State subvenes property tax revenue loss to local government.

**REVENUE IMPACT**

This bill would increase the state reimbursement for the homeowners' exemptions by at least \$1.448 billion annually. In addition, the inflation factor adjustment would increase the reimbursement by \$18.5 to \$92.7 million in 2004-05 to \$94.5 to \$512.0 million in 2008-09. (The revenue loss associated with the increase in the renters' credit is not included in this estimate.)

**COST IMPACT**

Absorbable.

<b>Staff Recommendation:</b>	Neutral
<b>Previous Position:</b>	None
<b>Status:</b>	Pending in Assembly Revenue and Taxation Committee
<b>Related Legislation:</b>	AB 1844 (Mountjoy, 2002) - Support (Increase to \$17K for seniors/disabled only) SB 48 (McClintock, 2001) - Support (Increase to \$25K)
<b>Floor Vote Requirement:</b>	Majority
<b>Fiscal Committee:</b>	Yes
<b>Sponsor:</b>	California Senior Legislature

**BOARD OF EQUALIZATION**

Bill No:

**SB 17****LEGISLATIVE COMMITTEE**

Author:

**Escutia**

Honorable Carole Migden, Chairwoman

Date:

**12/02/02****SUBJECT:** Property Taxation; change in ownership (Split Roll)**DIGEST**

**Existing law**, via the constitution, requires that property be reassessed to its current market value whenever there is a "change in ownership." Generally, when real property is owned by a legal entity, the purchase or transfer of ownership interests in that legal entity does not trigger a change in ownership (i.e., reassessment) of the property unless there is a "change in control" of the legal entity. A change in control occurs when a person or entity acquires more than 50 percent of the ownership interests in the legal entity.

**This bill** would state legislative intent to enact a program to redefine those circumstances under which nonresidential commercial and industrial property undergoes a "change in ownership" to ensure that all real property is assessed at fair market value when that real property undergoes a change in ownership.

**COMMENTS**

**Purpose:** To cause more frequent reassessment of property owned by legal entities.

- A "split roll" in the context of the existing tax structure means changing the law to trigger more frequent changes in ownership. A "true" split roll (a different tax rate or standard of value for a particular class of property) is not possible without a constitutional amendment.
- Proposition 13 provided that a "change in ownership" would trigger reassessment, but the phrase was not defined. The current definitions are based on the work of a broad-based Task Force to implement Proposition 13 which was subsequently codified.
- There are separate definitions for "transfers of interests in real property" and "transfers of ownership interests in legal entities" that own real property. Provided a change in control does not occur, transfers of fractional interests are treated differently (i.e., 50% transfer = 50% reassessment v. 50% transfer = no reassessment.) Additionally, ownership interests in a legal entity may completely turnover without causing a reassessment.
- Some characterize this as a "loophole" but the Task Force considered and debated the issue. Thus, the outcome of this definition was understood and the decision was consciously made.
- Since current definitions were statutorily created, statutory amendments could, arguably, modify the definitions initially established. However, legal challenges of any new program that substantially differs from the one in use since 1979 might still be expected.

<b>Staff Recommendation:</b>	Neutral
<b>Previous Position:</b>	None
<b>Status:</b>	Senate
<b>Related Legislation:</b>	SB 3x (Escutia) - this agenda SB 1662 (2002, Peace) - Oppose AB 1013 (2001, Leonard) – Neutral
<b>Floor Vote Requirement:</b>	Majority
<b>Fiscal Committee:</b>	No
<b>Sponsor:</b>	Pacific Institute for Community Organization (PIC0)

- Prior "split roll" proposals center on triggering reassessment when **cumulatively** more than 50% of the interests in the legal entity transfer.
  - Real property owned by corporations whose stock is publicly traded could be frequently reassessed to current market values.
  - Real property owned by privately held corporations and other legal entities, would be less frequently reassessed, (fewer turnovers of ownership interests).
- Split roll legislation is generally viewed in the context of commercial and industrial properties, but any type of real property owned by a legal entity would be affected (including residential income producing property - unless separate definitions are established for residential property owned by legal entities). Further, property used for commercial and industrial purposes, but owned by an individual would not be affected.
- Opponents of split roll proposals note that higher property taxes would be passed on to consumers and would damage California's business environment.
- Proponents of split roll proposals note that the current definitions are inequitable and tax burden is shifting to homeowners. The portion of the property tax roll consisting of owner occupied homes was 33.6% in 1979 and is 38% today.
- Funding a new program will be an issue. County assessors' offices would be unable to handle a significant program change with current resources. These are complex properties to appraise and require experienced appraisers.
- Counties perform the property tax administration function for all local governments and schools, but are not fully reimbursed. Schools, which receive 52% of property tax revenue, do not pay a pro-rata share of administrative costs.
- A new program could result in a significant overhaul of the current property tax system. This is a fundamental policy issue, but with substantial challenges to create a program that is administratively feasible, cost effective, and minimizes burdens on taxpayers and counties.

### **REVENUE IMPACT**

None, in present form of legislative intent; estimate deferred until new program is specified.

### **COST IMPACT**

None, in present form of legislative intent; estimate deferred until new program is specified.

**BOARD OF EQUALIZATION**Bill No: **SB 3x****LEGISLATIVE COMMITTEE**Author: **Escutia**

Honorable Carole Migden, Chairwoman

Date: **01/16/03****SUBJECT:** Property Taxation; change in ownership (Split Roll)**DIGEST**

**Existing law**, via the constitution, requires that property be reassessed to its current market value whenever there is a "change in ownership." Generally, when real property is owned by a legal entity, the purchase or transfer of ownership interests in that legal entity does not trigger a change in ownership (i.e., reassessment) of the property unless there is a "change in control" of the legal entity. A change in control occurs when a person or entity acquires more than 50 percent of the ownership interests in the legal entity.

**This bill** would state legislative intent to enact a program to redefine those circumstances under which nonresidential commercial and industrial property undergoes a "change in ownership" to ensure that all real property is assessed at fair market value when that real property undergoes a change in ownership.

**COMMENTS**

**Purpose:** To cause more frequent reassessment of property owned by legal entities.

- A "split roll" in the context of the existing tax structure means changing the law to trigger more frequent changes in ownership. A "true" split roll (a different tax rate or standard of value for a particular class of property) is not possible without a constitutional amendment.
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- Some characterize this as a "loophole" but the Task Force considered and debated the issue. Thus, the outcome of this definition was understood and the decision was consciously made.
- Since current definitions were statutorily created, statutory amendments could, arguably, modify the definitions initially established. However, legal challenges of any new program that substantially differs from the one in use since 1979 might still be expected.

<b>Staff Recommendation:</b>	Neutral
<b>Previous Position:</b>	None
<b>Status:</b>	Senate
<b>Related Legislation:</b>	SB 17 (Escutia) – this agenda SB 1662 (2002, Peace) - Oppose AB 1013 (2001, Leonard) – Neutral
<b>Floor Vote Requirement:</b>	Majority
<b>Fiscal Committee:</b>	No
<b>Sponsor:</b>	Pacific Institute for Community Organization (PIC0)

- Prior "split roll" proposals center on triggering reassessment when **cumulatively** more than 50% of the interests in the legal entity transfer.
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- Funding a new program will be an issue. County assessors' offices would be unable to handle a significant program change with current resources. These are complex properties to appraise and require experienced appraisers.
- Counties perform the property tax administration function for all local governments and schools, but are not fully reimbursed. Schools, which receive 52% of property tax revenue, do not pay a pro-rata share of administrative costs.
- A new program could result in a significant overhaul of the current property tax system. This is a fundamental policy issue, but with substantial challenges to create a program that is administratively feasible, cost effective, and minimizes burdens on taxpayers and counties.

### **REVENUE IMPACT**

None, in present form of legislative intent; estimate deferred until new program is specified.

### **COST IMPACT**

None, in present form of legislative intent; estimate deferred until new program is specified.

SUMMARY OF STAFF ANALYSIS

Agenda Item # 4

**BOARD OF EQUALIZATION**  
**LEGISLATIVE COMMITTEE**  
Honorable Carole Migden, Chairwoman

Bill No: **SB 47**  
Author: **Ackerman, et al.**  
Date: **01/09/03**

**SUBJECT:** Sales and use tax: MIC extension

**DIGEST**

**Existing law** provides a state tax exemption for purchases of manufacturing equipment by new manufacturers. This exemption contains a sunset date which provides that if certain employment figures are not maintained at a certain level, the exemption will expire. Similar income tax credit provisions with the same sunset dates are contained in the income tax laws administered by FTB.

**This bill** would delete the conditional sunset dates, thereby making the partial state tax exemption and state income tax credits permanent.

**COMMENTS**

**Purpose:** To ensure that these tax incentives do not expire so that manufacturing business will continue to be attracted and maintained in California.

- The sunset dates in the statutes were worded in such a way that it had appeared as if they would likely never trigger - by the end of 1998, manufacturing employment had increased by about 207,000 more than in 1994. However, by the end of 2002, that employment figured dropped to about 143,900. If the economy declines further, the employment figures could realistically drop lower than the 100,000 mark, which would result in the sunseting of these provisions.

**REVENUE IMPACT**

Annual state General Fund loss of \$7.9 million.

**COST IMPACT**

None

<b>Staff Recommendation:</b>	Neutral
<b>Previous Position:</b>	None
<b>Status:</b>	Pending in Senate Revenue and Taxation Committee
<b>Related Legislation:</b>	SB 2X (Poochigian) – This agenda; AB 122 (Calderon) – 3/26 agenda
<b>Floor Vote Requirement:</b>	Majority
<b>Fiscal Committee:</b>	Yes
<b>Sponsor:</b>	Author

**BOARD OF EQUALIZATION  
LEGISLATIVE COMMITTEE**

Honorable Carole Migden, Chairwoman

Bill No: **SCA 2**  
Author: **Torlakson**  
Date: **12/02/02****SUBJECT:** Local government: sales taxes: transportation**DIGEST**

**Existing law** authorizes counties to impose a transactions and use tax at a rate of 1/4 percent, or a multiple thereof, of the sales price of tangible personal property sold at retail in the county, or purchased outside the county for use in the county. Counties are authorized to impose a transactions and use tax for general purposes with a majority voter approval and for specific purposes with a 2/3 voter approval.

**This bill** would allow a city, county, city and county, or a regional transportation agency, with the approval of a *majority* of its voters within its jurisdiction, to impose a special tax upon the privilege of selling one or more classes of tangible personal property at retail within its jurisdiction, for purposes of funding transportation projects and services and smart growth planning. This Constitutional amendment must be approved by a majority of California voters.

**COMMENTS**

**Purpose:** To allow local governments to pass or extend sales and use tax measures for funding transportation projects with a majority voter approval.

- Proposition 62, passed by the voters on November 4, 1986, requires that any tax proposed for general purposes be approved by a majority of the voters and that any tax proposed for specific purposes be approved by two-thirds of the voters. In a 1995 court decision, *Santa Clara County Local Transportation Authority v. Guardino*, the California Supreme Court upheld the two-thirds voter approval provision of Proposition 62. This decision raises important implications for counties with special (transportation) districts that passed transactions and use tax measures by a majority vote. Most of these measures had sunset provisions (the majority were authorized for a 20 year period), which requires voter reauthorization if the taxes are to remain in effect.
- 13 of 17 counties need to reauthorize their transportation related taxes which are due to sunset. Those counties are: Contra Costa, Fresno, Imperial, Madera, Orange, Riverside, Sacramento, San Bernardino, San Diego, San Joaquin, San Mateo, San Francisco, Santa Barbara

**REVENUE IMPACT**

The revenue impact would be specific to each local government that approved a tax.

**COST IMPACT**

None

<b>Staff Recommendation:</b>	Neutral
<b>Previous Position:</b>	None
<b>Status:</b>	Senate Transportation Committee - 2/4
<b>Related Legislation:</b>	SCA 5 (Torlakson, 2001) – Oppose; ACA 7 (Dutra) – 3/26 agenda
<b>Floor Vote Requirement:</b>	2/3
<b>Fiscal Committee:</b>	No
<b>Sponsor:</b>	Senator Torlakson

SUMMARY OF STAFF ANALYSIS

Agenda Item # 6

**BOARD OF EQUALIZATION  
LEGISLATIVE COMMITTEE**  
Honorable Carole Migden, Chairwoman

Bill No: **SB 2X**  
Author: **Poochigian, et al.**  
Date: **01/06/03**

**SUBJECT:** Sales and use tax: MIC extension

**DIGEST**

**Existing law** provides a state tax exemption for purchases of manufacturing equipment by new manufacturers. This exemption contains a sunset date which provides that if certain employment figures are not maintained at a certain level, the exemption will expire. Similar income tax credit provisions with the same sunset dates are contained in the income tax laws administered by FTB.

**This bill** would delete the conditional sunset dates, thereby making the partial state tax exemption and state income tax credits permanent.

**COMMENTS**

**Purpose:** To ensure that these tax incentives do not expire so that manufacturing business will continue to be attracted and maintained in California.

- The sunset dates in the statutes were worded in such a way that it had appeared as if they would likely never trigger - by the end of 1998, manufacturing employment had increased by about 207,000 more than in 1994. However, by the end of 2002, that employment figured dropped to about 143,900. If the economy declines further, the employment figures could realistically drop lower than the 100,000 mark, which would result in the sunseting of these provisions.

**REVENUE IMPACT**

Annual State General fund loss of \$7.9 million.

**COST IMPACT**

None

<b>Staff Recommendation:</b>	Neutral
<b>Previous Position:</b>	None
<b>Status:</b>	Pending in Senate Revenue and Taxation Committee
<b>Related Legislation:</b>	SB 47 (Ackerman) – This agenda; AB 122 (Calderon) – 3/26 agenda
<b>Floor Vote Requirement:</b>	Majority
<b>Fiscal Committee:</b>	Yes
<b>Sponsor:</b>	Author