

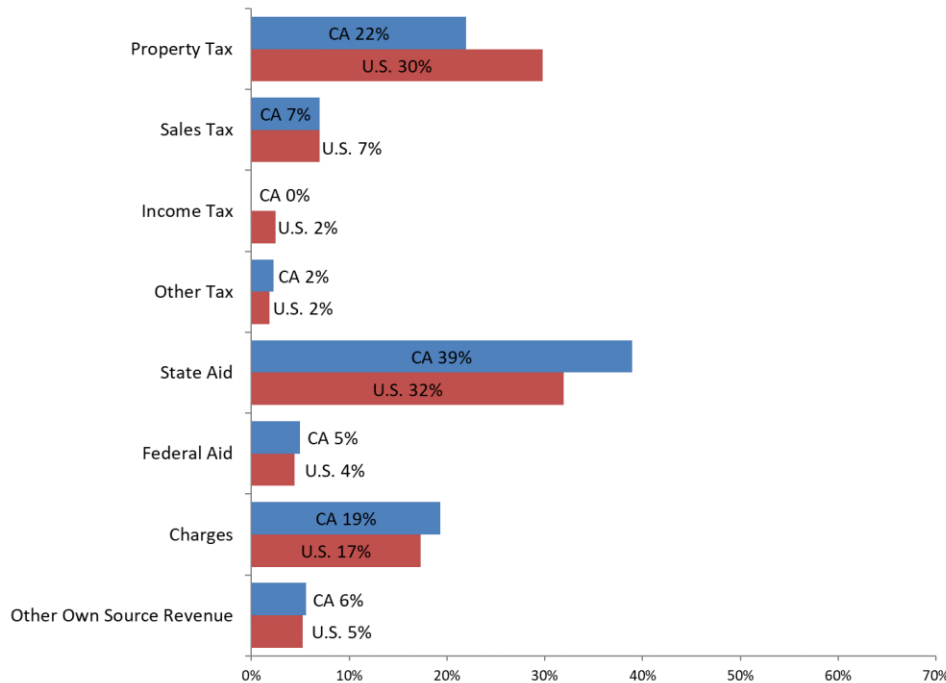
# California

## Highlights

California is credited with initiating a nationwide tax revolt when voters passed Proposition 13 in 1978. This ballot initiative amended the state constitution and put into place one of the most restrictive property tax systems in the country. Proposition 13 contained four key provisions: a property tax rate cap, a rollback of assessed values, an assessment limit, and a prohibition against state and local governments imposing any other ad valorem property taxes, sales taxes, or transactions taxes on real property.

These provisions resulted in an entirely new system of local property taxation in California. Prior to Proposition 13, each local government levied its own tax rate. Under Proposition 13, the state legislature devised a complex system by which the total property tax revenue within each county is shared among all of the separate districts.

**Figure CA-1**  
**Sources of Local General Revenue, California and U.S., 2014**



Source: U.S. Census via Significant Features of the Property Tax

Although local governments lost control over their most important revenue source, California voters benefit from the certainty of knowing that the tax on their property is limited to 1 percent of the purchase price and that the assessed value can increase by no more than 2 percent per year. The

property tax is still the largest source of local general revenues after state aid, but charges account for nearly as much as the property tax as a source of local general revenue (figure CA-1).

## Property Tax Reliance

The effective tax rate on a median-value owner-occupied home is low relative to the U.S. average as is total property tax as a percentage of state-local revenue (table CA-1).

**Table CA-1**  
**Selected California Property Tax Statistics, 2014<sup>1</sup>**

	California	U.S. Average	Rank (of 51) <i>1 is highest</i>
<a href="#">Per capita property tax</a>	\$1,389	\$1,464	23
<a href="#">Property tax percentage of personal income</a>	2.7%	3.2%	31
<a href="#">Total property tax as percentage of state-local revenue</a>	14.5%	16.9%	30
Median owner-occupied home value <sup>2</sup>	\$385,500	\$178,600	3
Median real estate taxes paid for owner-occupied home <sup>2</sup>	\$3,104	\$2,149	11
Effective tax rate, median owner-occupied home <sup>3</sup>	0.8%	1.2%	35

Sources: U.S. Census via Significant Features of the Property Tax, American Community Survey

<sup>1</sup> All revenue numbers in this table include the state government as well as local governments.

<sup>2</sup> The statistics for median owner-occupied home value and median real estate taxes paid for owner-occupied home are five-year average statistics for years 2011-2015.

<sup>3</sup> Calculated as the median real estate tax paid on owner-occupied homes as a percent of the median owner-occupied home value.

## Administration and Assessment

California uses an acquisition-value-based assessment system, meaning that market value assessments occur only when the property is transferred, with ensuing adjustments based on a standard factor, rather than on current market value. When Proposition 13 was passed in 1978, it defined the value of real property as its fair market value on March 1, 1975, which is known as a base year value. Proposition 13 stipulated that in subsequent years the assessed value could increase by no more than 2 percent per year or the rate of inflation, whichever is less, unless there is a change in ownership. Every time a property is sold, it is assessed at its full market value, thus receiving a new base year value. Transfers from one spouse to another and, under certain circumstances, transfers from parent to child or from grandparent to grandchild do not constitute a change in ownership (Moll III and O’Neill 2015).

California’s 58 counties are responsible for assessing property. Personal property is subject to tax, but this excludes most business inventories. Personal property is assessed annually.

## Limits on Property Taxation

In addition to limiting property tax assessments, California limits property tax rates (table CA-2). Although Proposition 13 set a tax rate cap at 1 percent, rates were allowed to exceed the cap to cover preexisting debt obligations. In 1986, voters approved Proposition 46, which reinstated property tax-financed general obligation bonds as a local government option provided they receive two-thirds voter approval, resulting in some variation in property tax rates across the state.

California also approved a limit on the growth in annual appropriation of tax revenues for the state and most local governments, known as the Gann Initiative, which was enacted in 1979 and modified in 1990 (Coleman 2014). Revenue received by any local government in excess of that allowed must be refunded by a revision in tax rates or fee schedules within the next two fiscal years.

## Property Tax Relief and Incentives

Property tax relief is provided to homeowners and disabled veterans. An exemption of \$7,000 of assessed value is available for all owner-occupied homes. Veterans with specified disabilities and unmarried surviving spouses of deceased disabled veterans are eligible for an exemption of up to the full value of their principal residence. Senior or disabled homeowners are also able to transfer a property's favorable assessment value to a replacement property if they purchase a new primary residence in their county of residence, or sometimes if they purchase a new primary residence in another county. California also has a property tax circuit breaker, but that program is not currently funded.

Tax increment finance (TIF) was first used in California in 1952, but the program was ended in 2011. In 2015, the governor signed legislation allowing community revitalization and investment authorities, which are similar to TIFs but more limited (Youngman 2016).

**Table CA-2**  
**Property Tax Features of State Governments, United States, 2015**

Feature	California	Count for 50 states plus DC
<a href="#">Statewide classification of real property</a>	No	25
<a href="#">Assessment of property primarily by county</a>	Yes	31
<a href="#">Limits on property tax rates or levies</a>	Yes	45
<a href="#">Limits on the rate of growth of assessed value</a>	Yes	19
<a href="#">Circuit breaker property tax relief program</a>	Yes	34

Sources: Significant Features of the Property Tax

## Key Property Tax History

California's Property Tax Law of 1850 established the statewide property tax as the major state revenue source, accounting for over 70 percent of its revenue through 1910. Local governments also imposed property taxes as their primary source of revenue. In the early 1900s, California's first tax revolt led to the eventual elimination of the statewide property tax. Local taxing jurisdictions used this opportunity to increase their property tax rates, absorbing all of the savings.

Rapidly rising property values resulting in annual increases in property tax bills as high as 30 percent, a growing state surplus, and changes in education finance brought on by California Supreme Court rulings in *Serrano v. Priest*, all contributed to the passage of Proposition 13 in 1978.

Soon after its passage, the acquisition-value assessment system was under attack as a violation of the Equal Protection Clause of the U.S. Constitution. Under Proposition 13, two owners of identical properties can face radically different taxes simply because they bought their properties at different times. In 1978, the California Supreme Court found that this assessment feature did not violate the U.S. Constitution (*Amador Valley Joint Union High School District v. State Board of Equalization*). Challenges continued, however, and not until 14 years later did the U.S. Supreme Court issue the final verdict concerning the constitutionality of an acquisition-value property tax system. In its 1992 judgment in *Nordlinger v. Hahn*, the Court ruled that the assessment features of Proposition 13 did not violate the Equal Protection Clause of the Constitution.

Although Proposition 13 prohibited any new or increased ad valorem taxes on real property, the parcel tax, another form of property levy, has emerged as a source of revenue for local jurisdictions, especially school districts. Parcel taxes are usually flat rate taxes imposed on property irrespective of value. In California, they are considered special taxes that require two-thirds voter approval. Some districts have levied parcel taxes that differ for residential and nonresidential properties or that vary according to the square footage of the property. These levies are currently being challenged in the courts as mimicking ad valorem levies (Sonstelie 2014).

## Recent Developments

In July 2013, California enacted major legislation to reform its education funding system. The new Local Control Funding Formula (LCFF) establishes uniform base per-pupil funding levels by grade and provides additional need-based funding both on a per-pupil basis and through concentration grants to districts with a high share of needy students. The law eliminates 75 percent of categorical spending restrictions, imposes new reporting requirements, and includes funding for Common Core implementation. The new system is expected to be phased in over eight years. State aid will be based on the gap between a district's target LCFF funding level and their prior-year funding level, with the gap fully funded after eight years. Local property tax revenues count against each district's target LCFF funding level. Under the law's hold-harmless provision, no district will lose aid and most districts will receive additional funding (Taylor 2013).

The August 2017 California Supreme Court ruling in *California Cannabis Coalition v. City of Upland* may make it easier for local governments to enact tax increases. Proposition 218, enacted in 1996, had been interpreted to require a two-thirds majority to create or increase local special taxes. But the August 2017 ruling appears to apply the super majority requirement only for measures put on the ballot by governmental entities, not by a citizens' initiative (Jones 2017).

## Resources

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