

# Split Roll Property Tax

## Voters Keep Property Taxes Under Control

As a whole, California employers enjoy few competitive advantages when growing a business simply because they do business in California. One of the few benefits is a stable and predictable property tax bill, courtesy of Proposition 13.

“Stable and predictable” doesn’t always mean “low.” Businesses that have purchased or built their facilities relatively recently know their land values and construction costs are steep, compared with other states. But they also know exactly what their tax bills will be into the future, based on Proposition 13’s acquisition-based assessments: generally speaking, the tax will amount to 1% of their purchase price (plus costs of improvements), and their assessed value inflated by 2% a year. That is the very definition of “stable and predictable.”

According to the [Tax Foundation](#), California ranks 49th among states for its business tax climate. This includes ranking 49th in personal income taxes, 45th in sales taxes and 28th in corporate taxes. But for property taxes, California rates far above average—14th best among all states.

For more than four decades, Proposition 13 has protected property owners, including residential properties, from arbitrary and volatile property tax increases. Local governments and schools also have benefited from a base of predictable, ongoing revenue not subject to the intense volatility of a top-heavy progressive income tax.

Since Proposition 13 took effect in 1979, property taxes have more than doubled **after adjusting for population growth and inflation**. Local property taxes are estimated to top \$79 billion this year, more than any other [state’s total general fund budget](#), save California. Only once since Proposition 13 have property tax revenues ever declined—during the Great Recession a decade ago—and over the four decades, the average annual growth has been 7%.

### COALITION DEFEATS 2020 PUSH FOR SPLIT ROLL

But instead of a thank you note to taxpayers for supplying massive and reliable tax revenues, school and local government unions have pressed for decades to unwind Proposition 13. In 2020 they made their big move—sponsoring Proposition 15 on the November ballot, which would have reassessed business properties every three years, resulting in what would have been the largest tax increase in California history—up to \$12.5 billion annually.

As former Howard Jarvis Taxpayers Association President [Joel Fox recently remarked](#), “The odds were all to the Yes on Proposition 15’s liking. If they were ever going to inflict changes to California’s iconic property tax law, Proposition 13, the 2020 general election was the time to do it.” Indeed, the measure’s proponents, led by the California Teachers Association and the Service Employees International Union, raised more than \$60 million to make their case.

But a sturdy coalition comprising large and small business employers, local chambers of commerce, and numerous community organizations stepped up to finance a campaign that educated voters about the many flaws of the massive tax increase. Opponents were motivated and well-organized, and outraised the proponents. When all the votes were counted, Proposition 15 was handily defeated by nearly 700,000 votes, or about 4% of all votes cast.

[California Chamber of Commerce President and CEO Allan Zaremborg observed](#), “California voters understood the very real threat Proposition 15 presented to small businesses, farmers and consumers. Voters in California smartly recognized that enacting the largest tax hike in California history would have been devastating to jobs, our economy and California’s future competitiveness.”

That might be the end of the discussion, but this is California, where the spending lobby’s appetite for more taxes is never satiated.

Within moments of the announcement of the measure’s defeat, proponents vowed to come at the ballot again. The president of the measure’s key sponsor, the relentless California

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## TAXATION

Teachers Association, [insisted that](#), “The fight for much-needed funding for equitable resources continues as our schools and communities face billions in devastating budget cuts.”

### WHAT'S NEXT

So what's next on the tax increase wheel of fortune?

With a statewide property tax increase off the table, notions of a sales tax on services, a wealth tax, the corporation tax, and more income tax increases on high earners will move to the fore.

We'll see if the Legislature takes any heed of Governor Gavin Newsom's admonition when he endorsed Proposition 15 in September 2020: “In a global, mobile economy, now is not the time for the kind of state tax increases on income we saw proposed at the end of this legislative session and I will not sign such proposals into law,” [Newsom said](#).

Voters show no sign of weakening in their reluctance to consider higher taxes. The CalChamber poll, *People's Voice, 2020*, asked voters, in the wake of Proposition 15's defeat, if they would support a tax increase on corporations of more than 50% and on millionaires by another 10% for schools, local government and other programs. By a 63% to 37% margin, voters soundly rejected this proposal.

The state's fiscal health will also play into this calculation. The [Legislative Analyst has estimated](#) that California's budget will enjoy a one-time revenue windfall of \$26 billion to allocate in the 2021–22 budget, including substantial new funding for public schools. On the other hand, the Analyst warned that the budget over the long term is structurally out of balance due to massive spending commitments, which could motivate school employee unions and others reliant on government funding to push for more tax increases.

California business property taxpayers can breathe more easily today, knowing their tax bills will remain stable and predictable. But businesses and taxpayers generally must remain vigilant for the continuing threats from new taxes emanating from the Legislature or future ballots.

### CALCHAMBER POSITION

The CalChamber strongly opposes a split roll property tax. Removing uniform Proposition 13 protections for business property taxpayers hurts small businesses, consumers and the California economy.



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January 2021