Outline

- (1) History
- (2) Definitions/Rules
- (3) Reliance
- (4) Specific Concerns
- (5) Status Quo, Reduction, or Elimination?
- (6) Replacement Revenue?
(1) History

- Unless CA Constitution or federal law prohibits, all property (real, personal, and mixed) taxed in state

- Prop 13 (1978)
  - Rolled back real property assessments to 1975 values
  - Property tax rate limited to 1% plus rate to fund voter-approved bonds
  - Limits assessment increases to 2% of base year assessment unless change ownership or new construction
    - Acquisition value assessment
Figure 7

Property Tax Revenue Compared With Other Major Revenue Sources

2010-11 (In Billions)

Figure 9
Most Ad Valorem Property Tax Revenue Is Allocated to Schools and Counties

(2) Definitions/Rules

- Personal property rules
  - CA Legislature may provide for differential taxation
    - After 2/3 vote requirement for each house
    - Not the case for real property
  - Current exemptions
    - Business inventories, application software, licensed motor vehicles, household items, all owned by banks/financial/insurance companies, $50K employee owned tools
    - Full market value less than $10K
  - No Prop 13 acquisition value limitations
    - Market value assessment based on data provided by owner of taxable personal property on Jan 1
  - Special property tax rate assessments not applicable
(3) Reliance

The CA Constitution requires the State Board to annually assess: railway, telegraph, telephone, car companies using state railways, utility transmission, and pipelines that cross county borders.

California State and Local Tangible Personal Property Tax Base as Percentage of Total Property Tax Base

Correlation with Per-Capita Income = -0.53
Correlation with % Land in Agric Prod = +0.59

Santa Clara County (Silicon Valley) Tangible Property Tax Base as Percentage of Total Property Tax Base

At $91,425 in 2012, Santa Clara County had the highest county median household income in CA and was 14th in U.S.

Data source: CA Board of Equalization Open Data Portal, [http://www.boe.ca.gov/dataportal](http://www.boe.ca.gov/dataportal)

Note: *The CA Board of Equalization Open Data Portal* data shows that the value of $53 for California remains unchanged in FY 2013-2014.
California Tangible Property Tax Collections as Percentage of Total State and Local Own-Source Revenue for Neighboring and “Competitor” States

<table>
<thead>
<tr>
<th>States</th>
<th>FY 2000-01</th>
<th>FY 2005-06</th>
<th>FY 2009-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Washington</td>
<td>1.20</td>
<td>0.75</td>
<td>0.93</td>
</tr>
<tr>
<td>Oregon</td>
<td>0.90</td>
<td>0.87</td>
<td>0.90</td>
</tr>
<tr>
<td>California</td>
<td>0.77</td>
<td>0.99</td>
<td>1.09</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>1.79</td>
<td>1.60</td>
<td>1.20</td>
</tr>
<tr>
<td>Nevada</td>
<td>3.86</td>
<td>2.18</td>
<td>2.18</td>
</tr>
<tr>
<td>Arizona</td>
<td>3.55</td>
<td>2.80</td>
<td>2.35</td>
</tr>
<tr>
<td>U.S. Weighted Average</td>
<td>2.23</td>
<td>2.23</td>
<td>2.23</td>
</tr>
<tr>
<td>Texas</td>
<td>3.14</td>
<td>3.14</td>
<td>3.14</td>
</tr>
</tbody>
</table>

NY and IL do not tax personal property.


Note: The CA Board of Equalization Open Data Portal data shows that tangible personal property tax collections for FY 2013-14 was about $2.149 B. Given a value of $377,700 B in total own-source revenue for FY 2013-14 the value of 0.77 for California has fallen to 0.58 in FY 2013-2014 ([http://www.usgovernmentrevenue.com/year_revenue_2013CAbl_15bs1nf/usgs302](http://www.usgovernmentrevenue.com/year_revenue_2013CAbl_15bs1nf/usgs302))
In summary

- CA personal property as % total property tax base declined between FY 2003-04 (5.4%) and FY 2013-14 (3.9%)
- Wide variation across CA counties in FY 2013-14
  - Marin and Alpine Counties (1.6%)
  - Santa Clara and Siskiyou Counties (6.7%)
  - +0.59 correlation between % property tax base personal and % acres in agriculture
- Santa Clara County (Silicon Valley) exception
  - 12.0% property base personal in FY 2000-01
  - 6.7% property base personal in FY 2009-10
- CA far below U.S. average in per capita personal property tax collections and % own-source revenue from personal property tax
  - Near or below neighboring states
  - TX, UT, and AZ far above CA
  - NY and IL far below
(4) Specific Concerns

- Arise because personal property is unique and mobile

- Uniqueness
  - Required annual market value assessment makes the county assessor’s task difficult, business compliance burdensome, and greater potential for avoidance
CA Taxpayers Assoc (2001)

One group’s analysis/opinion

Consulting report commissioned by

- CA Chamber of Commerce, CA Business Roundtable, American Electronics Assoc, Western States Petroleum Assoc, CA Aerospace Tech Assoc

Based on interviews of a small sample business property tax payers and assessors

- *Valuation is the most controversial and contentious aspect of personal property tax*

Some inconsistency in county methods to determine fair market value

- Administrative efficiencies favored
- High-tech equip represent over half disputes
- More actual obsolesce than allowed
- No market for obsolete equip, still valued at 20% original market price
- Double assessment as real property

Assessor’s perspective

- Within BOE and state statutes, county can use any appraisal method to arrive at fair market value

○ Personal property valuation choices
  - Acquisition cost varies with transport/install
  - Price trend change varies with assumed inflation
  - Life years varies with technical obsolescence
  - Depreciation varies with application
    - BOE guidelines on these not binding
    - Mass appraisal techniques result in single item valued differently than if done separate
    - Majority of disputes in high-tech industries (computers)

○ Personal property administration costs
  - Real about 1.1% of revenue
  - Personal about 5.5% of revenue

○ Incentive for overvaluation
  - Property tax agent over reports and then shares in benefits of successful appeal

○ Double assessment in both real & personal
  - Whose responsibility to clear up?

○ Four-year, $400K BOE mandatory audit?
  - Only $4K in property tax revenue? Raise?

https://www.boe.ca.gov/proptaxes/pdf/ah504.pdf
Mobility

- Numira Biosciences, founded in 2005 in Irvine, California, packed its bags and moved to Salt Lake City. The relocation, CEO Michael Beeuwsaert told the Orange County Register, was partly about the Utah destination’s pleasant quality of life and talented workforce. But there was a big “push factor,” too: California’s steepening taxes and ever-thickening snarl of government regulations. “The tipping point was when someone from the Orange County tax [assessor] wanted to see our facility to tax every piece of equipment I had.”

[Link to article](http://www.city-journal.org/2011/21_4_california-businesses.html)
Data confirmation?

○ Anecdotes/business polls as evidence

○ National Establishment Database
  - CA ranked 47th among states in net job creation from business relocation
    - But only losing 124K more jobs than gained
    - 0.1% of all state jobs

○ PPIC Study
  - CA employment change driven by expansion/contraction of existing firms
  - 96% of CA business mobility within state
  - [An] examination of employment trends since the mid-1990s suggests that CA has been more or less in line with the rest of the nation. … no particular deterioration of net job growth over the long term or in recent years.

CA not out of line with neighboring states

○ Interstate mobility not a worry

○ Intrastate mobility could be

(5) Status Quo, Reduction, or Elimination?

- **0.6% Perspective**
  - $380B in CA state and local revenue in FY 2013-14
  - $2.2B from personal property tax

- **Eliminate statewide (like DE, HA, IL, HY, OH, PA) or drastically reduce (like MN, NJ, ND, SD)?**
  - But differential impacts by county
    - Santa Clara and agricultural dominant counties hit harder
  - Statewide revenue substitute?

- **CA Legislature passes allowance of local exemption?**
  - Exists in AK, MD, VT, VA, and VT (IN just passed)
  - PPIC evidence
  - Choices: all, new, or targeted personal property
  - Local revenue substitute?
(6) Replacement Revenue?

- Statewide need about $2.2 B
  - No evidence of a Laffer Curve
  - Rule out
    - Sales tax increase (8th highest tax rate state)
    - Personal income tax increase (13.3% millionaire tax)
  - Split property tax role ($4 to $6 B)
    - Eliminate acquisition value for business real property
    - Overall business climate impact?
  - Oil extraction severance tax (about $2 B)
    - 9.5% on value of oil extracted in CA
    - SB 1071
      - Endowment fund: half to higher education systems, quarter to CA state parks system, and quarter to HHS programs

- Not happening!
Local choice on how to replace lost revenue

- Possibility of a Laffer Curve
  - Same or greater local property tax revenue after local personal property tax elimination
    - Increased real property
- Local revenue alternatives
  - Local sales tax option
  - Greater fees/charges
- Even if less local revenue, tradeoff in greater economic activity may be valued higher
- Greater economic/political viability than statewide

Problem
- Information asymmetry, credit claiming, politician’s high discount rate likely degrades into near statewide exemption
  - Suggest required vote on local adoption