California Proposition 15, Tax on Commercial and Industrial Properties for Education and Local Government Funding Initiative (2020)

California Proposition 15, the **Tax on Commercial and Industrial Properties for Education and Local Government Funding Initiative**, is on the ballot in California as an initiated constitutional amendment on November 3, 2020.

> A "**yes**" vote supports this constitutional amendment to require commercial and industrial properties, except those zoned as commercial agriculture, to be taxed based on their market value, rather than their purchase price.
>
> A "**no**" vote opposes this constitutional amendment, thus continuing to tax commercial and industrial properties based on a property's purchase price, with annual increases equal to the rate of inflation or 2 percent, whichever is lower.

Overview

What would Proposition 15 change about how properties are taxed in California?

Proposition 15 would amend the California State Constitution to require commercial and industrial properties, except those zoned as commercial agriculture, to be taxed based on their market value. In California, the proposal to assess taxes on commercial and industrial properties at market value, while continuing to assess taxes on residential properties based on the purchase price, is known as ***split roll***. The change from the purchase price to market value would be phased-in beginning in fiscal year 2022-2023. Properties, such as retail centers, whose occupants are 50 percent or more small businesses would be taxed based on market value beginning in fiscal year 2025-2026 (or at a later date that the legislature decides on). Proposition 15 would define *small businesses* as those that that are independently owned and operated, own California property, and have 50 or fewer employees.

The ballot initiative would make an exception for properties whose business owners have $3 million or less in holdings in California; these properties would continue to be taxed based on their purchase price. The ballot initiative would exempt a small business’s tangible personal property from taxes and $500,000 in value for a non-small business’s tangible personal property.[1]

The state fiscal analyst estimated that, upon full implementation, the ballot initiative would generate between $8 billion and $12.5 billion in revenue per year.[2]

Proposition 15 would make the California State Legislature responsible for passing laws for a phase-in of the market value-based tax on commercial and industrial properties, how often reassessments would occur (no less than three years between reassessments), and an appeals process for challenging reassessments.[1]

Where did the current tax assessment formula, based on purchase price, come from?

In 1978, Californians approved Proposition 13, which required that residential, commercial, and industrial properties are taxed based on their purchase price. The tax is limited to no more than 1 percent of the purchase price (at the time of purchase), with an annual adjustment equal to the rate of inflation or 2 percent, whichever is lower. According to the state Legislative Analyst's Office, market values in California tend to increase faster than 2 percent per year, meaning the taxable value of commercial and industrial properties is often lower than the market value.[2]

How would revenue from the change in taxation be distributed?

Proposition 15 would create a process in the state constitution for distributing revenue from the revised tax on commercial and industrial properties. The ballot initiative would distribute the revenue to specific areas, rather than the General Fund. First, the revenue would be distributed to (a) the state to supplement decreases in revenue from the state's personal income tax and corporation tax due to increased tax deductions and (b) counties to cover the costs of implementing the measure. Second, 60 percent of the remaining funds would be distributed to local governments and special districts, and 40 percent would be distributed to school districts and community colleges (via a new Local School and Community College Property Tax Fund). Revenue appropriated for education would be divided as follows: 11% for community colleges and 89% for public schools, charter schools, and county education offices. There would also be a requirement that schools and colleges receive an annual minimum of $100 (adjusted each year) per full-time student.[1][2]

1. *California Attorney General*, "Initiative 19-0008," September 17, 2019
2. *California the Legislative Analyst's Office*, "A.G. File No. 2019-0008," February 5, 2018