

Prop. Tax: Ec. 132

Court rules property tax reassessments required in mergers

The Press-Enterprise

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Business D-5

By BOB EGELKO
The Associated Press

SAN FRANCISCO — Upholding millions of dollars in post-Proposition 13 property taxes, the state Supreme Court ruled yesterday that a company's real estate must be reassessed when its parent firm is acquired in a merger.

The unanimous decision said the Legislature, in laws that implemented the 1978 tax initiative, did not intend to let corporations use mergers to escape the reassessment that Proposition 13 requires when property changes owners.

"The ordinary homeowner . . . cannot avoid reassessment in purchasing property by placing

title in the name of a corporate subsidiary," said the opinion by Justice Stanley Mosk.

He said the Legislature "recognized that it would be patently unfair" to allow corporations to avoid higher taxes by establishing property-holding subsidiaries, taxes that would be shifted to homeowners.

The ruling, in a case from Riverside and Merced counties, resolves one of the major remaining legal disputes over Proposition 13, the ballot measure sponsored by the late Howard Jarvis that slashed property taxes and tax assessments.

Proposition 13 limited property taxes to 1 percent of assessed

value, with some exceptions, and rolled back assessments to 1975-76 levels. Assessment increases were limited to 2 percent a year, but property was required to be reassessed at full market value — often with a sizeable increase in taxes — whenever it changed ownership.

The issue in the current case was whether property changed ownership when its owner was a company whose parent corporation was acquired by another firm in a merger. The Supreme Court, reversing a lower-court ruling, said there was a change of ownership that required reassessment.

The ruling was in line with practices by counties since 1979, at the direction of the state Board of Equalization, to reassess at market value any property held by a subsidiary of a newly merged corporation. A contrary ruling would have required a multimillion-dollar tax refund.

The case involved property owned in Riverside and Merced counties by Title Insurance and Trust Co., a subsidiary of Ticor. In 1979, Ticor was acquired by Southern Pacific Co., and the Ticor property was reassessed by both counties.

Ticor paid the higher taxes under protest, arguing that its property had not changed ownership, for tax purposes, through the

purchase of its parent company.

Mosk said a post-Proposition 13 law declares that when one

corporation obtains "direct or indirect control" over another, all property held by the second cor-

poration has undergone a change of ownership requiring reassessment.

Hyman, Ch. 12

1. Benchmark standard
"Lump-sum" tax = tax w/o taxable event.
2. Purpose of benchmark:
Make you ask "CW"?
Hyman is saying cf. to a tax w/o a taxable event.
3. Why?
To force us to face up to distorting, disincentive effects some taxes have.
Pro-tax people used to cover them up by pointing to "income effect".
Moral: always distinguish inc. effect from substy. or mgmt. effect.
4. There is an easier answer to the pro-tax posn:
there is no inc. effect in the aggregate, bcs. govt. services compensate for what taxes take away.

But this makes it even more important to avoid distorting taxes & incentive-destroying taxes.
If govt. gives all services, "cradle to the grave," welfare state; & penalizes hard work & thrift, no one will work or save.

5. Exceptions to the ~~case~~ #4.

a. Govt. may waste.

b. Govt. may redistribute

among groups: rich & poor

" regions. ~~to~~

" indies. e.g. the urban indies, subid. ag.

Names: "onerous" & "beneficial" taxes.

So there are net effects on individuals & classes.

6. E.g. head tax makes poor work harder.
prop. tax on land forces land into use.

Relative use of each depends on who holds power.

a text won't tell you that - too "controversial".

6. Text says "income effect", not privation.
But wealth + liquidity are also important effects.
Esp. re savings.

"One good catchword can obscure analysis for a generation" - Willkie. "Income" is that catchword.

7. Head tax not really w/o substr. effects.

- a. Emigrate
- b. Go underground, drop out, stay illegal.
- c. Dump elderly on the state
- d. " orphans, stop adoptions
- e. Smaller families

8. Land tax has effects, too.

Supply is fixed; but can ^{hold} ~~use~~ less. Fallacy of comp.

9. Skip 338-40. (in diff. cases). Use p. 341.

10. "Unit" tax means specific tax. Is rare - used to simplify analysis. OK.

11. Excess burden graph, p. 341.
Deadweight loss = excess burden.

12. p. 342

$$W = -\frac{1}{2} T \cdot \Delta Q \quad W \equiv \text{deadweight loss.}$$

Tax can use " $\frac{1}{2}$ " bcs. curves are straight.

It is an approx.

13. W rises w. square of tax rate, bcs. ΔQ rises w. t.r.

14. Gasoline a bad e.g. — is to pay for MEC (marginal ext. cost) of cars, crowding roads.
Clothes are a better e.g. Say, shoes.

15. Skip Equ. 12.3, p. 343.

But do not skip its message, which can see graphically.

$$\begin{array}{ccc} W \text{ rises w.} & T^2, & \\ & E \text{ of } D & \\ & E \text{ of } S & \end{array}$$

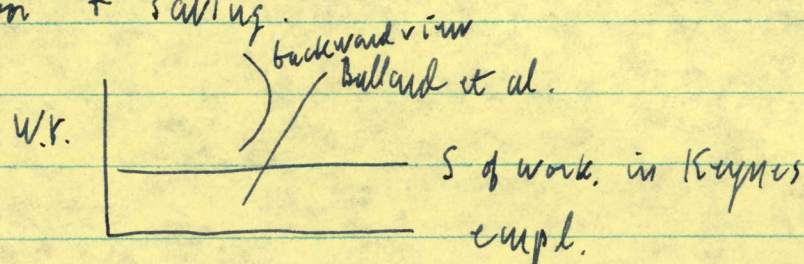
16. $\frac{W}{\text{Tax Rev}} = \text{"Efficiency-loss ratio"}$

17. To min. W, tax only things w. inelastic S & D.

End here Fri. Complete on Mon.

Read ahead: Chap. 18, Tax on Wealth.
(It was first in history; and ties in w. this chap.)

18. p. 344 Excess burdens are very high.
PV = ca. \$2 tr. — Ballard, Moven & Whalley.
They "found" taxes on int. & inv. income did most damage. [Considering source, they adjusted study accordingly.]
p. 345, anti-Keynesian assms. re E of supply of labor & saving.



These are ~~st~~ prejudice & fads, not based on obsrv.

19. Shifting:
Fwd.; backward.
Incidence — who finally ~~get~~ "eats it."
"Lodgring"

20. p. 346 Ad valorem.
Replicates p. 342

4. 349. Incidence is indep. of legal liability.
 Replicate p. 342 again - subtract from demand curve.
22. 351. Incidence lodges in inelastic supply.
 For S & L govt, that means land.
 For nat. govt, " " " + labor.
 No one can tax K , much, for long.
23. 351 B.E. - ksg. in elast. supply!
 Bldgs are, not land.
24. 352 E of $s = \infty$, all ~~the~~ borne by consumers.
 Is mythology.
 E.g. Ak. rev. tax
 Cal. ksg. fees
 " prop. tax
25. 353 E of $s = 0$.
 B.E. : s of labor - hours.
 Only land is inelast.
26. Shifting under mpy.
 Good exercise: leave to you.

27. "Multi-mkt." analysis of incidence. 355

Introduced as the an afterthought.
Is the only kind that's any good.
Taxes drive res. out of some work, & drive
them into others.
Tax shelters draw inv. & res.
E.g. of ouxcados.
hsg.

28. 358-59 is muddy, skip.

29. Lorenz curve & Gini coeff. 360

Note use of "income". By now he's slipped that
in as the proper measure, hopes you'll take it for
granted. Equates earned & unearned inc.
{ earnings, findings & stealings, all same.
a. More of top 10% is quicker, easier.
b. Wealth is more conc.

Hymans, Mr. 18

1. Long hist.
Relevance of 1066. — not just The Crusades.
Domesday
Feudal
Real Estate
Common Law
Sovereignty

2. Bad history, p. 520
But correct outcome.
Tax on r.e.; mainly local.

3. Wealth is result of accum. savg + inv.
No, that is K.
L.V. exists otherwise. $\frac{1}{2}$ of r.e.
Indiv. saves to buy land; but seller disposes.
Fallacy of compn.

4. Tax on wealth = tax on inc. of saving.
False; tax on land is not.
Tax on K is partly shifted to land.

521 5. Wealth a stock? Not L.V.

6. Real, "psul." intangible.

7. Exemptions 5-22
Religious, charitable & educ.
Misses many others!

8. Asset. vs. appraisal.
O's states difficulty of assets. Red herring.

9. 523-28 on comprehensive wealth tax is wrong.
a) It overlooks capn, covered later. (Written by a Committee)
b) There is no "comprehensive wealth tax".
c) Not really a tax on savings.

10. pp. 528-31 is mixed up: skip.

11. Tax capn. 531-33.

a. $V = \frac{Y}{r}$ Use a instead of Y , bcs. num, ~~is~~ not
always income.

$$V = \frac{a}{r}$$

b. $V = \frac{a - tV}{r}$; $V = \frac{a}{r + t}$

c. $T = tV = a \frac{t}{r + t}$

d. Same as the inc. tax were on after-tax inc.

$$T = tD$$

$$D = Y - T$$

$$T = t(Y - T)$$

$$T(1+t) = tY$$

$$T = Y \frac{t}{1+t}$$

$$e) CC = V(\bar{r} + t) = a$$

$$f) ROR = \frac{a - T}{V} = \bar{r}$$

- 12, LV can do this bcs. supply is fixed.
 LV bounces up & down; ~~is~~ r is given, hard,
 fixed, exogenous.

13,

State-
 assd.
~~Rolling~~
~~Rolling~~

L and
 K
 Bldgs
 Fixtures

Furniture
 Inv.

R.E. (Secured)

Pnd. (Unsecured)

R & U

Rolling

G. Summary of rationale for property tax

1. Simultaneously progressive and incensing, resolving greatest trade-off in tax policy
2. Strikes surgically at non-functional source of economic power, exempts functional income. Implements the productivity theory of distribution and the Puritan ethic, at least w.r.t. labor. Exempt capital and it also implements the ethic w.r.t. saving.
3. Promotes intergenerational equity. Other taxes strike upward mobility.
4. If "Custer died for your sins" this tax makes us pay for our sins. (Alternatively, give it all back to the Indians and then tax it heavily.)
5. Is part of implied social compact -- or the actual Mayflower compact, as implemented by Bradford.
6. Promotes all three kinds of equity: functional; egalitarian; and market. And a fourth kind, too: interregional equity.
7. Penalizes cartels for holding excess capacity.
8. Is the effective seller motivation that keeps land markets from turning to glue. Moving the market reduces need for people to hold advance reserves.
9. Recoups for public the benefits of public works.
10. Moves landholders to respond quickly to new opportunities, e.g. from new extension of public works.

11. Offsets boom and bust in land markets (if assessors move quickly with the market).
12. Offsets major loopholes in the income tax.
13. Compensates those who missed out (or whose ancestors missed out) on the original political distribution of land by moving landholders to use land to: a, pay taxes; b, employ workers; c, produce goods.
14. An effective and indispensable part of "supply-side" macro-economics. Fights unemployment by promoting land use and investment.
15. Base is non-erosive, non-migratory.
16. Implements Haig-Simons by taxing unrealized capital gains, inherently and automatically.
17. Imposes a Performance Standard on landholders: "What have you done with the Golden Talents" which society has placed in your stewardship?
18. Does not discourage new investment (especially if capital is exempted).
19. Focuses on unearned income, which places one on a higher plane of well-being than the equivalent earned income since one has the leisure to enjoy it.

$$T = t(Y - T) = tY - tT$$

$$T(1+t) = tY$$

$$T = Y \frac{t}{1+t}$$

$$t = \frac{t}{1+t}$$

$$, 25 \quad \frac{\frac{1}{4}}{5/4} = \frac{1}{5}$$

$$\frac{1}{2} \quad \frac{\frac{1}{2}}{\frac{3}{2}} = \frac{1}{3}$$

$$\frac{3}{4} \quad \frac{3/4}{7/4} = \frac{3}{7}$$

$$1 \quad \frac{1}{2}$$

0.5

0.0

0.1

0.4

0.0

0.

0.3

0.25

0.5

$$160 = \frac{1.1}{1}$$

0.0

1.

$$\frac{7+7}{2}$$

$$(2-1)2$$

2

$$2(2-1)2 =$$

$$(22-2)2 = 1$$

long time

Effects of Contin. Growth of Earnings

1. Valuation: $V = \frac{a}{i-g}$

Growth expectations are capitalized: $V = \frac{a+gV}{i-g}$

2. P/e ratio ^{goes up} ~~is elevated~~ ~~raised~~: $(P/e \equiv V/a)$

$$\frac{P}{e} \frac{V}{a} = \frac{1}{i-g}$$

3. "Ordinary" yield is ~~lowered~~ goes down:

$$\frac{a}{V} = i-g$$

4. Total yield covers interest:

$$\frac{a}{V} + g = i$$

5. g is $\Delta V/V$:

$$\Delta V = \frac{a(1+g)}{i-g} - \frac{a}{i-g} = \frac{ga}{i-g} = gV$$

$$\frac{gV}{V} = g$$

6. Carrying Costs (CC) ~~are~~ go up: $(CC = Vi)$

$$~~CC~~ Vi = a + gV$$

7. Negative Cash Flow for Borrowers:

$$a - iV = -gV$$

8. Value becomes hypersensitive to i :

$$\frac{dV}{di} \equiv V' = \frac{-a}{(i-g)^2}$$

$$\frac{V'}{V} = \frac{-1}{i-g}$$

$$E \equiv \frac{V'/V}{1/i} = \frac{-i}{i-g}$$

E.g., a 10% rise of i , as from 10% to 11%,
results in a decline of V by $\frac{.10}{.10 - .05} = 2 \times 95$

much, or 20%.

9. Screening out the poor: land rationing by credit
rationing. Use 8, 7, 6, 4

10. Land tax as limit on value.

11. Land tax & real i. r.

$$CC = V(i+t) = \frac{a}{i+t-g} (i+t) = a \frac{i+t}{i+t-g}$$

3200/mo. 1980

400/mo.

1982.

Assessor's parcel maps are also available for viewing at the Assessor's office. Copies of these maps as well as property characteristic information are available for purchase by the public. **For more information, call (714) 787-6331.**

MAPS

The Assessor's Office establishes and maintains a set of more than 21,000 maps for assessment purposes, delineating every parcel of land in the County. These maps serve as the basis for the assessment of all real property in the County of Riverside. The maps are continuously updated to reflect new subdivisions and surveys. **For more information, call (714) 787-6331**

IMPORTANT DATES

March 15: Legal deadline for filing exemption claims for Welfare, Cemetery, and College Exemptions.

March 31: Deadline for filing Church and Religious Exemptions.

April 10: Deadline for payment of second installment of secured property taxes.

April 15: Deadline for filing Business Personal Property Statements, Veterans' and Homeowners' Exemptions.

July 1: Assessment Roll delivered by Assessor to County Auditor.

July 2 — Sept. 15: Period during which the Clerk of the Board accepts petitions for Assessment Appeal Board hearings.

August 31: Deadline for payments of unsecured property taxes.

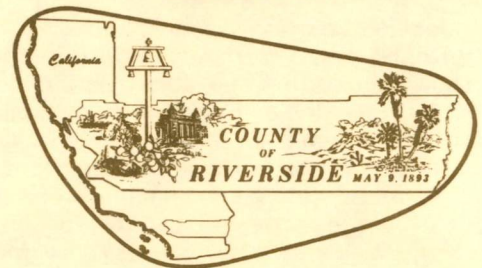
December 1: Deadline for late filing of Homeowners' Exemptions and Veterans' Exemptions to qualify for a partial exemption.

December 10: Deadline for payment of first installment of secured property taxes.

(Other filing periods may apply for Supplemental Assessments and Escape Assessments.)

ALL STATEMENTS IN THIS PAMPHLET ARE ACCURATE AS OF THE DATE OF PRINTING, 08-01-87.

ANSWERS TO YOUR PROPERTY TAX QUESTIONS



Frank C. Seeley
Assessor

THE ASSESSOR HAS ESTABLISHED OFFICES
THROUGHOUT THE COUNTY TO SERVE YOU

RIVERSIDE (92501-3659)

4080 Lemon Street
County Administrative Center
(714) 787-6331

BANNING (92220-5506)

135 N. Alessandro St. — Room 211
(714) 849-7311
(Limited Hours)

BLYTHE (92225-1608)

160 N. Broadway
(619) 922-6189
(Limited Hours)

HEMET (92343-1496)

880 N. State Street
(714) 925-6694

INDIO (92201-5994)

46-209 Oasis - Room 406
(619) 342-8261

PALM SPRINGS (92262-6962)

3255 E. Tahquitz-McCallum Way
Room 114
(619) 323-8536

PERRIS (92370-1919)

227 N. "D" Street
(714) 657-3171

TEMECULA (92390-2261)

27403 Ynez Road - Room 101
(714) 676-3861

PROPERTY ASSESSMENTS

REAL ESTATE

Under Proposition 13, real property is reappraised only when a change-in-ownership occurs, or when new construction takes place. Generally, a change in ownership is a sale or transfer of property, while new construction is any improvement to property which is not considered normal maintenance. Except for these two instances, property assessments cannot be increased by more than 2% annually.

CHANGE IN OWNERSHIP REAPPRAISALS

When a transfer occurs, the Assessor receives a copy of the deed and determines if a reappraisal is required under State law. If it is required, an appraisal is made to determine the new market value of the property. The property owner is then notified of the new assessment and has the right to appeal the value.

The transfer of property between husband and wife does not require a reappraisal for property tax purposes. This includes transfers resulting from divorce or death. In addition, the transfer of the principal place of residence between parents and children (and the transfer of up to \$1 million of any other real property between parents and children) is also excluded from reappraisal if an application is timely filed. Applications are available by writing to the Assessor's office or by calling (714) 787-1662. These forms also are available in the County Recorder's Office.

NEW CONSTRUCTION

Copies of all building permits are sent to the Assessor by the cities and the County. If the construction is an addition (such as a room addition), a reappraisal is required. If the construction is a replacement (such as a new roof), a reappraisal usually is not required. In appraising new construction, the market value of the addition is determined and added to the value of the existing property. The value of the existing property does not change. As with a change-in-owner-

ship, the property owner is then notified of the new assessment and has the right to appeal the value.

SUPPLEMENTAL ASSESSMENTS

Since July, 1983, State law requires the Assessor to reappraise property as of the date of change-in-ownership or completion of new construction. The Assessor makes a supplemental assessment which reflects the difference between the prior assessed value and the new assessment. This value is prorated based on the number of months remaining in the fiscal year, ending June 30. This assessment is in addition to the regular tax bill. Notices of supplemental assessments are mailed out to property owners prior to the issuance of the tax bill.

CHANGE-IN-OWNERSHIP STATEMENT

This form is required by State law to be filed for all property transfers. A \$20 fee will be charged if the completed form is not filed at the time of recording. If the form is not filed, the Assessor is then required to mail to the property owner a further request for the same information. This form is used to assist the appraisal of property and is not open for public inspection. For further information, call (714) 787-1662.

BUSINESS PERSONAL PROPERTY

Unlike real property, business personal property is reappraised annually. The owners of all businesses must file a property statement on or prior to April 15th of each year detailing costs of all supplies, equipment, and fixtures at each location. For more information, call (714) 787-2656.

MARINE AND AIRCRAFT

Boats and airplanes are taxable and appraised annually. Their value is determined by reviewing the purchase price and the sales of comparable boats and airplanes. Information on their location and ownership is obtained from the Department of Motor Vehicles, the Federal Aeronautics Administration, and on-site inspections. For more information, call (714) 787-2710.

BUILDER'S EXCLUSION

There is an exclusion for new construction from the supplemental assessment. The property must be held **for sale** and the builder must file the necessary claim form with the Assessor **prior to or within 30 days** from the start of construction. If the form is not filed, a supplemental assessment is made to the builder upon the completion of the construction. If the form is filed, a supplemental assessment is not made until the property is sold to the new owner. **For more information, call (714) 787-6331.**

REPLACEMENT PROPERTY PROPERTIES ACQUIRED BY GOVERNMENTAL ENTITIES

This provides that if a government agency acquires property through condemnation, owners have the right to retain their existing value and transfer it to a replacement property. The replacement property must be comparable to the property acquired, and an application form must be filed with the Assessor within four (4) years from the date of acquisition.

REAPPRAISAL EXCLUSION FOR SENIORS

Senior citizens over 55 years of age can buy a residence of equal or lesser value than their existing home and transfer their current tax value to the new home. The purpose of this is to provide property tax relief for seniors by preventing a property tax increase if they sell their existing home and buy another one in the same county. **For more information, call (714) 787-1662.**

PROPERTY TAX POSTPONEMENT

If you are blind, disabled, or 62 years of age or older, and if you have an annual income of \$24,000 or less, you may have the option of having the State pay all or part of the property taxes on your home or mobilehome. This deferred payment is a lien on the property and becomes due upon sale, change of residence, or death.

The filing period for property tax postponement is between May 16 and December 10. For more information and an application, call the State Controller's Office (toll free) at 1-800-952-5661.

PROPERTY TAX ASSISTANCE

This program provides a cash reimbursement to pay for property taxes. To be eligible, you must be either blind, disabled, or 62 years of age or older, and have a total household income of **\$12,000 or less**. Filing for this program will not reduce the amount of taxes owed, nor will it result in a lien being placed on your property.

The filing period for the property tax assistance program is from May 15 through August 31. For more information and an application, call the State Franchise Tax Board (toll free) at 1-800-852-5711.

VETERANS' EXEMPTION

In order to be eligible for a Veterans' Exemption a veteran must have been a resident of California as of November 3, 1964. Also, a single veteran or unremarried widow of a veteran must not have assets valued over \$5,000. A married veteran must not have assets valued over \$10,000.

DISABLED VETERANS

If you are a California veteran who is rated 100% disabled, blind, or a paraplegic due to a service-connected disability while in the armed forces (or if you are the unmarried widow of such a veteran), you may be eligible for an exemption of up to \$100,000 off the assessed value of your home. **For more information, call (714) 787-2744.**

PUBLIC RECORDS

The Assessor's Office provides a public information service to assist taxpayers with questions about their property. Property ownership and other general property information are available for viewing on microfiche. The

MOBILEHOMES

All mobilehomes purchased new after June 30, 1980, and those on permanent foundations, are subject to property taxes. As with real property, the assessed value of mobilehomes cannot be increased by more than 2% annually, unless there is a change-in-ownership or new construction. **For more information, call (714) 787-6331.**

Most mobilehomes originally built and sold before June 30, 1980 are on the in-lieu tax system administered by the State Department of Housing and Community Development. They can be reached at (619) 237-7608 or (714) 383-4357.

Recent State legislation provides that the purchase of a mobilehome **park** by the current residents will **not** constitute a change-in-ownership for reassessment purposes. Property taxes will remain at their present level and **not** be increased, except for the normal 2% inflationary factor.

ASSESSMENT APPEALS

Differences over the valuation of property are handled by the Assessment Appeals Board. There are two independent boards each composed of three private citizens appointed by the County Board of Supervisors. They consider all evidence presented by the property owner and the Assessor's office at a formal hearing. The Appeals Board then determines the value of the property in question. Appeals on regular assessments must be filed between July 2 and September 15. Appeals on supplemental assessments must be filed within 60 days of the mailing date on the supplemental assessment notice. All appeals must be filed with the Clerk of the Board of Supervisors at the County Administrative Center, 4080 Lemon Street, 14th Floor, Riverside, CA 92501-3655. **For more information call (714) 787-2803.**

EXEMPTIONS, EXCLUSIONS AND TAX RELIEF

HOMEOWNERS' EXEMPTION

If you own a home and occupy it as your principal place of residence on March 1, you may apply for an exemption of \$7,000 off your assessed value. New property owners will automatically receive an exemption application in the mail. Homeowners' exemptions may also apply to a supplemental assessment if the property was not receiving a Homeowners' Exemption previously on the regular Assessment Roll. **For more information call (714) 787-6331.**

INSTITUTIONAL EXEMPTIONS

Property used exclusively for a church, college, cemetery, museum, school, or library qualifies for an exemption. Properties owned and used exclusively by a non-profit religious, charitable, scientific, or hospital corporation are also eligible. **For more information call (714) 787-6331.**

REVIEW WHEN VALUES DECLINE

The Assessor will lower the assessed value of any real property if it is higher than the current market value. Each case is reviewed individually upon request of the property owner.

DISASTER RELIEF

If a major calamity such as fire or flooding damages or destroys your property, you may be eligible for property tax relief. In such cases, the Assessor's Office will reappraise the property to reflect its damaged condition. In addition, when you rebuild it in a like or similar manner, the property will retain its previous value for tax purposes.

To qualify for property tax relief, you must file a calamity claim with the Assessor's Office within 60 days from the date the property was damaged or destroyed. In addition, the loss must exceed \$5,000.

State aid for courts accepted

14 Sept 88 B-1

But county must share property tax revenue with five cities

By SKIP MORGAN
The Press-Enterprise

Riverside County supervisors yesterday decided that state financial help for local trial courts was an offer they could not refuse despite having to share the money with five cities in the county.

While making sure payments for the county's court system will begin arriving from Sacramento on Jan. 1, supervisors voted to begin a campaign to get the Legislature to reconsider a last-minute addition to the court financing program that requires the county to give a share of its property taxes to cities that now receive little or no property taxes.

Supervisors urged the County Supervisors Association of California, representing the state's 58 counties, to launch a statewide lobbying effort to get the Legislature to find a way to help tax-poor cities that does not penalize counties that participate in the court funding program.

Supervisor Patricia "Corky"

Larson joined in the unanimous decision to accept financial help for the courts, but abstained from the vote on initiating a campaign to avoid splitting the court funding with tax-poor cities.

Larson said she had not had a chance to read the resolutions calling for the lobbying campaign and was concerned that the five cities not be hurt by the county's efforts.

"I don't want to look like I'm shooting the cities," she said.

The court funding package, approved last month in the final hours before the Legislature adjourned for the year, gives the county five additional judgeships, plus between \$12 million and \$14 million a year initially to help operate the court system.

Five cities in the county — Indian Wells, La Quinta, Moreno Valley, Palm Desert and Rancho Mirage — would receive an estimated \$30 million in added tax revenues over the next 10 years as a result of the requirement that

counties participating in the court funding program share their property taxes with cities with low tax rates.

Supervisors argued that tying tax assistance for cities to the trial court legislation forces Riverside County to give up a share of its property taxes despite the fact that the county's tax rate is below the statewide average.

Riverside County receives 27 cents of each dollar of property taxes collected in the county, compared with an average of 33 cents for counties statewide, according to a court survey. The remainder of the tax dollar goes to school districts, water districts, park districts, other special districts, cities and redevelopment agencies.

Only 16 of the state's 58 counties have to share any of their trial court funds with cities. Counties which stand to lose the highest percentage of funding include

(See AID, Page B-4)

1989, to independently acquire parcels for the project's first phase. If all the property cannot be assembled, the Redevelopment Agency can then assist.

Also, the agency and developers must strive to make jobs generated by the project available to low- and moderate-income residents.

Federal officials recommended the changes after reviewing the grant application last week for five hours with city officials. Margueretta "Maggie" Gulati, the city's development director, said the project will be "back to

retail shops and a theater and will cost about \$15.5 million, according to a city report.

Phase 1 could take four years to complete with the remainder in another three to six years, Gulati said.

In early 1987, the agency entered into the negotiating agreement, which gives an exclusive right to negotiate on the Riverside Marketplace project, 200 acres bounded by 14th Street, Third Street, Park Avenue and Highway 91. Plans call for the area to be renovated and for the addition of theaters, restaurants, shops, new housing and offices.

prove most board recommendations, although some matters, such as rate increases, can be initiated only by the board.

City Attorney John Woodhead said he did not think Barnett defined what he was proposing, so he was not sure what kind of approval was needed. At the least, an organizational change would require a change in the city's charter by voters, but it also could require approval by the state.

"Why he doesn't want the elected officials to have some authority over an appointed board is

County-city review procedure set

The Press-Enterprise

The city and county of Riverside will have more formalized oversight of each other's projects in the city under a procedure approved yesterday by the City Council and the Board of Supervisors.

A joint committee will be called together to review projects such as new buildings and parking lots.

City Planning Director Merle Gardner said the new guidelines

what the committee felt about the projects' designs.

Gardner said the review process aims at cooperation. "There's nothing binding here other than good faith and good will," he said.

Robert R. Arnau, director of the county's Department of Building Services, said, "The board members were concerned that we have a practical system that would allow the city to have some input into what we're doing in the city, because that's fair."

Trash accumulation a

The Press-Enterprise

The Riverside City Council yesterday gave final approval to an ordinance that gives sanitation staff the power to cite properties on which trash is accumulated.

The ordinance also authorizes enforcement of the city's anti-litter ordinance through citation. Assistant City Attorney Kathleen

Celebra



Aid . . .

(From Page B-1)

Riverside, Contra Costa and Ventura counties.

To receive court funding, Riverside County must give a portion of property tax revenues it receives to the five cities with low tax rates to increase the cities' tax rates to seven cents of each dollar of property taxes collected within the cities.

Jim Harrington, an assistant director of the California League of Cities, said the seven-cent rates are far below the average of 19½ cents of each dollar of property taxes that goes to cities statewide.

The portion of property-tax dollars currently going to general city revenues is:

- .7 cents in Indian Wells.
- 3.7 cents in La Quinta.
- 5.4 cents in Moreno Valley.

- 1.5 cents in Palm Desert.
- 1 cent in Rancho Mirage.

County officials argue that these figures do not actually reflect the tax rates in four of the cities, which have active redevelopment agencies. These agencies receive tax revenues which are used to pay for community improvement projects.

The portion of tax dollars go-

ing to city redevelopment agencies is:

- 49.1 cents in Indian Wells.
- 34.4 cents in La Quinta.
- 32.3 cents in Palm Desert.
- 28.2 cents in Rancho Mi-

rage.

A redevelopment agency was established in 1986 in Moreno Valley, but it has not started collecting tax revenues.

29 Oct 88 IV-3

MONEY TALK / Carla Lazzarini

Prop. 90 Would on Assessment

QUESTION: We went looking for a retirement house recently and were shocked to find that we cannot transfer the assessed value of our house in Los Angeles County to a neighboring county. Are they going to change this goof? To whom should we write in Sacramento to ask for a change in the law? —M. C.

ANSWER: Can you wait until Nov. 8? If so, your prayers might be answered by the California electorate. Prop. 90 on the Nov. 8 ballot offers the framework for solving the problem you have discovered.

In November, 1986, state voters approved an initiative allowing homeowners over age 55 to transfer the assessed value of a home they are selling to a new home, thus bypassing the reassessment and property tax increase that typically accompanies the purchase of a new home in California. However, there were some important restrictions to that initiative. One was that the homeowners had to purchase a home of equal or lesser value than the residence they were selling. Another was that both the old and new residence had to be in the same county.

Prop. 90 proposes to eliminate the second restriction and sets the stage for homeowners over age 55 to transfer the assessed value of their homes anywhere within the state.

But one important caveat: The county in which the replacement home is located must be a participant in the special property assessment program that Prop. 90 would create. In addition, the program would apply only to purchases made on or after the date the county in which the purchase is made agrees to join the program. Intercounty purchases made prior to Nov. 9 are not covered by the initiative.



REFORM OF LOCAL GOVERNMENT, CALIFORNIA STYLE: THE CASE OF PROPOSITION 13

By Donald G. Hagman

On the 750th occurrence of the use of direct democracy since it was authorized in 1911, California voters engaged in an act on June 6, 1978 which may revolutionize local government in California. The occasion was the vote on Proposition 13, (the 13th issue on the ballot), the so-called Jarvis/Gann Tax Limitation — Initiative Constitutional Amendment, put on the ballot by petition of the people.

Because of Proposition 13, 67 percent of registered voters came out to vote, setting a new record of participation in a gubernatorial primary election. Two to one they voted for a proposition which: (1) limits real property taxes to one percent of market value, thus cutting yearly revenues from property taxes in California from \$12 billion to about \$5 billion; (2) determines that market value as of 1975-76 property tax assessments or the value at the time of later construction or change in ownership of property; (3) provides that the assessed value of real estate for property tax purposes cannot be increased by more than two percent per year; (4) precludes other taxes from being increased except by two-thirds vote of all members of the legislature at the state level or a two-thirds vote of those eligible to vote at the local level. *or by inflation.*

Impacts on Government

In California, as typical in the United States, property taxes are used only to finance local governments. On average, cities are 27 percent dependent on the property tax for their revenues, counties 40 percent, school districts 47 percent. Dependency among these entities varies widely and an average cannot easily be computed for California's 4,700 or so special districts which come in 55 basic varieties and are dependent on property taxes for from zero to 100 percent of their revenues. Since the Proposition does not indicate how the remaining \$5 billion in property tax revenues is to be allocated among these governments, a solution to which must be provided by legislation, necessary local government expenditure adjustments are difficult to make. All that is known as of this writing is that property tax revenues will fall on average by about 57 percent.

The state has a surplus of about \$5 billion, most of which the governor proposes to use to soften the \$7 billion blow. Of course, it is not known at this time whether the "surplus" will continue to be available. It is available now largely because the state's progressive income tax is not indexed and a buoyant economy plus inflation has allowed the state to increase taxes in real terms while the governor can steadfastly stick to his promise to enact no "new" taxes.

Unless localities respond to the crises by enacting replacement taxes, any continuing state funding of the shortfall will radicalize the power relationships between state and local governments on the theory that he who pays the piper calls the tune. In 1976-77, for example, the relationship between federal, state and own funding of the major types of local governments in California was as follows:

	Percentage of Revenues			Total Revenues in Billions
	Federal	from State	Own	
Counties	24	25	51	\$7.4
Cities	16	14	70	5.0
School Districts	6	40	54	7.3
				19.7

A \$5 billion or \$7 billion shift in revenue sources to the state would obviously alter the power relationship considerably.

If local governments do have a shortfall in revenues, only the most optimistic believe that there is enough "fat" in local government to avoid cuts in the "bone." The bone in such labor intensive activities as local government involves employees who must be discharged or suffer wage reductions despite inflation. Since most local governments discharge under seniority rules and affirmative action programs have only recently begun to reach large numbers of minority race employees, minority employees could pay through their unemployment most of the "cost" of the taxpayer revolt.

The proponents of Proposition 13 forecast a great flowering of private sector activity which could absorb any discharges and more. That could happen, but in the short run there could be considerable adjustment costs.

Impacts on Real Estate and Development

The impacts on the value of property from the tax cuts and the effect on development are not easily calculated. There are three reasons. First, property taxes are deductible from the federal income tax so savings on property taxes could translate into some increase in federal taxes depending on a property owner's income tax bracket. Some estimates are that federal income taxes might increase by as much as \$2 billion because of the loss of the deduction. Second, reduced public services capitalize to lower property values and service reductions are not yet known. Third, whatever if any taxes or charges are enacted to replace property taxes could be incident on property. While adopting some such taxes may be in the political cards in the short term, I have elsewhere described legally "How to comply with Jarvis/Gann and Raise Taxes on Property at the Same Time." I there indicate that the legislature could eliminate loopholes in the existing property tax, put all property in the tax base and raise \$14 billion while complying with the one percent limit. Other legally viable alternatives include adoption of an English-like tax on benefit of occupancy or a surcharged income tax on imputed rent from owner-occupied property or a surcharged sales tax on rental of tenant occupied property.

Put these speculative possibilities aside, and consider only the impact of Proposition 13 tax cuts on persons with various interests in property. The decrease in taxes on property capitalizes into an increase in the value of property. The decrease in taxes can be large under Proposition 13, especially in areas with rapidly rising real estate values. For example, my home enjoyed a higher than normal but by no means unique increase in value and the property taxes for 1977-78 were \$4,600. Construing Proposition 13 most favorably to me, my property taxes for 1978-79 could be as low as \$830 based on one percent of its value as measured by the assessor in 1975. Under the least favorable circumstances my property taxes will be cut at least in half.

Everything else held equal, a lowering of taxes to \$830 capitalizes to increase the value of my home and others relatively similarly situated by some 30 to 40 percent. Homeowners will thus make out like bandits.

Will renters get relief? The likely answer is no. Multiple dwellings are now selling in many areas in California for prices not justified by rents but justified only by anticipated capital appreciation. Landlords would obviously prefer to have income rather than speculation sustain their values. They will not pass on property tax savings unless demand decreases. But demand

will not decrease. Because owner-occupied properties will become more expensive, as previously described, would-be owners must remain only occupiers. Of course, supply may rise to meet demand, but that will not happen for two reasons. First, because of environmental and other controls, the supply response is sluggish. Second, local governments have traditionally been reluctant to allow development of multiple family buildings because of the high service cost/low property tax yield ratio. A cut in tax yield will further increase resistance. Thus, the only development allowed is likely to be that where the developer agrees to pay all the public costs associated with the new development, a buy-in fee to the existing infrastructure and the present value of future public services to be provided. That will likely raise the price of multiple family development so high as to meet only the demand of those with high incomes.

The only developers who will benefit are retail commercial developers because in California one (of the six) cent sales tax is returned to the local governments within whose territory the sale took place. Local governments have competed vigorously for such development in the past and will compete more vigorously in the future as a way of replacing lost property taxes.

Vacant landowners will gain from the capitalization of decreased taxes but will lose because development potential will fall. Realtors will lose commissions because turnovers will fall in order to avoid a stepped-up property tax base. I explain. Recall that the taxable value of property is frozen, except for a two percent per year increase, as of 1975 unless there is new construction or a change in ownership. That means that the taxes on my home used in the example could be as low as \$1,100 a year in 1988 whereas if I sold my house in 1988, by which time it had increased in value as much as it has in the past ten years, the taxes on the house would be some \$12,500. Owners might lease out their homes, but thinking of themselves either as investors or as needing replacement housing if they sold, they would be silly to give up the favorable annual tax savings. While high property taxes are now allegedly "forcing" people out of their homes and other properties, a far below comparable property tax burden will induce them not to sell.

Without going into further length, knowledgeable persons can continue and elaborate on the reasoning to predict the following winners and losers listed in order of the likely magnitudes:

Big Winners	owners
	multiple family
	industrial
	commercial non retail
	home
	commercial retail developers
	commercial retail renters
	vacant landowners
	realtors
	developers (except retail commercial)
	tenants
	commercial (except retail commercial)
	industrial
Big Losers	multiple family

Why the Revolt and How to Prevent It

Within the decade California voters have thrice voted on Proposition 13-like proposals. The first two were defeated by margins of 2 to 1 whereas Proposition 13 passed by that margin. Why? Here are some speculations.

It appears that homeowners were the most enthusiastic supporters. Values of homes in many areas in California have increased dramatically in the last few years. They have inflated in value faster than ordinary inflation and faster than other real estate. The assessor, who is supposed to assess annually, actually reassessed only every three or four years. Due to this so-

called "assessment lag", assessments on the assessment roll in some areas can double in one year. That does not mean that taxes will double, for if total assessments doubled throughout a jurisdiction, tax rates could be cut in half and the same amount of taxes produced.

In fact, tax rates on average have stayed the same in California for about eight years. Officials in some local governments were thus able to increase revenues faster than general inflation would dictate while at the same time acting responsibly by "holding the line on rates."

Homeowners were also miffed because their share of total property taxes was increasing. That was in part due to the faster appreciation of residential properties than other properties but also due to tampering with the tax base. Ever since California became a state, the legislature and the people have been enacting loopholes in the tax so that it is no longer a general property tax but is primarily a tax on real estate. Much real estate is taxed at a lower effective rate of tax than is residential property.

Another reason for homeowner disquietude is that they judge the property tax by income tax criteria. If one's income goes up, one expects to pay more taxes, indeed one expects to pay a greater percentage of taxes as income rises. Most have come to accept that under the rubric of ability to pay. People tend to forget that the ability to pay the property tax is measured by the value of property owned. All the assessor does under the property tax is to measure the value of one owner's property against the value of the property owned by others in order to determine relative ability to pay. If the value of one's property doubles, however, homeowners think their taxes should stay the same because their income has stayed the same and unrealized gain is not income.

The above analysis all assumes that the basic truths about the property tax are not understood by homeowners and they are acting irrationally. On the other hand, many homeowners probably understand property taxes clearly and are playing dumb because they can thereby reduce their taxes, increase the values of their homes, and shift the taxes to someone else. Homeowners in America are the most numerous tax rip-off artists around and homeownership clearly represents the middle American's one and best tax loophole under income and now under property tax laws.

Owners of other property are investors who, like smart homeowners, know that by property tax cuts they can increase their after-tax income and the value of their properties at the same time. They might face replacement taxes, but they might not. Perhaps new taxes can be shifted to the propertyless class.

There are other reasons for the revolt. A conservative mood is sweeping America. People are opposed to wealth redistribution by government. Even those favorable to wealth redistribution note that government so often bungles it that redistribution is very expensive administratively or the rich get richer or both and that the private sector might do it as well as the public sector.

Disaffection with government does not explain why the revolt is against the local property tax. In California and generally throughout the nation, the income and sales tax have been increasing faster than the property tax. People felt tax poor in California mostly because the state was running a \$5 billion surplus and that was largely because of the income tax. Why didn't people attack the state income tax rather than the local property tax?

There are probably two reasons. First, the property tax is the most visible tax. It is hard to pay while withholding of the income tax and payment of the sales tax concurrently with consumption makes those taxes relatively invisible. The property tax is the lightning rod for taxpayer revolts. Second, the people perceive that a local tax is the one thing they can control. You

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can fight city hall; you can't fight the state or national capitol. Used to pounding their fists on the table about the property tax, therefore, the people used an attack on it to send their "message" to higher level governments.

How then should government officials act to avoid the tax revolt in other states? They should keep assessments current, start removing loopholes from the property tax, honestly cut rates when assessments increase, make the property tax easier to pay, begin educating the people that ability to pay can be judged by property ownership as well as by income, not allow

surpluses to develop and strive to develop a tax system that involves three broad-based taxes on income, consumption and property.

* Donald G. Hagman is a UCLA Law Professor specializing in Planning, State and Local Tax, Local Government and Environmental Law. His latest book is *Windfalls for Wipeouts: Land Value Capture and Compensation*, (ASPO Press, 1978). He is an emeritus member of the HDR Editorial Advisory Board.



Prop. Tax

Manhattan, Inc. Mag. Late '87 or early '88 issue.
p. 32.

Kato, a f-use r.e. co., bought Tower 49 for
\$30/m or \$500/sf, a record hi price.

N.Y. assessed on the new price, applied 4.4% tax
rate, took \$22/sf tax. ~~The~~ Gross rent ca. \$40/sf.
So tax = $\frac{22}{40} = 5.5\%$ of gross rent.

If expenses = \$8, leaves cf of \$10, or 2% of \$500
But they got assmt. lowered from $\frac{135m}{.45}$ to

$\frac{119.4m}{.45}$. (.45 is the assmt. ratio).

Morals:

1. 4% prop. tax rate holds down bldg. prices a lot;
land prices even more, (deduct const. cost of bldg, annualized)
2. f-use buyers probably failed to realize how high
our prop. tax is. That is why they overpay.
3. Assmts. in N.Y. are based on latest sales price, but
this is not spread around to other parcels. Works like
P-13, w/o benefit of law.
4. N.Y. assmts are appealable - & negotiable?

23 June 88 B-2

Keep runway option open, panel advises

By JOAN RADOVICH
The Press-Enterprise

Riverside should keep its options open for possible short-haul passenger flights and not depart from plans to extend the main runway at Riverside Municipal Airport, the City Council's Transportation Committee recommended yesterday.

That also means the city should continue to require developers to dedicate property frontage along Doolittle Avenue to allow for realigning Van Buren Boulevard if the runway is extended, according to the committee.

"I'd kind of like to keep our options open," said Councilwoman

Jean Mansfield. Other committee members are George Osborne and Jack B. Clarke Sr.

The committee's recommendation conforms with opinions of the Riverside Airport Commission, an advisory board to the council, and the Greater Riverside Chambers of Commerce Board of Directors.

But the recommendation was opposed by Ron Rose, chairman of an airport users group called the Riverside Airport Political Action Committee.

Rose said the recommendations were being based on a study that did not include an engineering study or a cost/benefit analysis

of realigning Van Buren. "To accept a recommendation from that position would be very weak," Rose said.

In addition, he said the report was flawed because it did not consider construction of a new runway.

The on-again, off-again runway extension issue has been simmering for a few years.

In January 1986, the Airport Commission asked the council to eliminate plans for the 800-foot runway extension because it would be too expensive. Last year, a study by The Ralph M. Parsons Co., of Pasadena, recommended the city retain the option of ex-

tending the runway if it wanted to proceed with plans for limited short-haul passenger flights. The commission reversed the earlier vote and agreed with the consultant.

Bud Stone, chairman of the Airport Commission, said the western end of the runway may need to be lengthened because the eastern end may have to be shortened. If the city decides to undertake the extension and street relocation, state and federal funds could be available.

"It isn't a money commitment at this time," Stone said.

The issue is expected to be considered by the full council next month.

Thus lowering tax base

School districts looking at new taxes as growth answer

By DAVID OGUL
The Press-Enterprise

Faced with booming student populations while trying to cope with a limited amount of money, school districts throughout Riverside County are starting to look toward a funding mechanism sure to create a hefty share of controversy:

New taxes.

"There are some school districts that are not only looking at it, but are actively involved in looking to put together campaigns to push for such financing," said Dallas Holmes, a Riverside attorney with a law firm representing several districts in the county.

Holmes and others are beginning to feel that school districts will have to sell general obligation bonds — financed by new taxes — to help pay for construction of schools.

Most school construction is financed through developer fees, which are passed on to home

buyers in new developments. But with scores of new schools needed to keep pace with the growing population in the county, school administrators are finding such developer fee financing is falling short.

Riverside Unified School District officials, for example, figure that developer fees pay barely one-third of the cost of building a new school.

"Developer fees simply do not provide the kind of funding we need to provide the kind of schools the public demands," said Bruce Wallis, trustee with the Hemet Unified School District.

The Hemet and San Jacinto districts are now grappling with the question of how to finance the nine schools officials project that they will need by 1993.

In Hemet, administrators are beginning to look at the nuts and bolts of a possible bond issue. They also are contemplating a public relations move to "edu-

cate" the parents about the educational financial crunch and the need for such bonds.

Administrators in San Jacinto Unified School District may not be far behind.

"It is an option that we may need to look at soon," said Superintendent Sandra Shackelford.

A Riverside Unified School District official also says that asking residents to tax themselves to pay for a bond issue is probably just a matter of time.

"We will be able to cover construction of our elementary schools for the next five years or so, but at some point down the road, perhaps five or 10 years, we're going to have to probably seriously study going to a general obligation bond," said David Bail, assistant superintendent for business services.

Bond issues must be approved by a two-thirds vote, but there is a move in the state Legislature that would allow the sale of

bonds with only a majority of the voting public giving approval.

Either way, bonds are a hard sell.

"It is an option, but it is a difficult option — especially in an area that is predominantly a retirement community," said Mike

Bailey, director of planning for the 11,000-student Hemet district.

The option became available last year after a state constitutional amendment took effect. The option had been taken away when the state's voters approved Prop. 13 in 1978.

"When you look at current school financing, general obligation bonds seem infinitely more fair than what we have now," said attorney Holmes of Best, Best & Krieger in Riverside. "It puts a little bit of a burden on everyone who owns property in the district."

Mason Gaffney
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16 Sept 91

Professor John Mikesell
Public and Environmental Affairs
Indiana University
Bloomington, IN 47401

Dear Professor Mikesell:

Herewith a few comments on your informative paper on Personal Property Tax Exemptions, received today.

1. All ten Canadian Provinces have exempted personal property for a long time - worth a peek.

2. You might say a word about equity, and concentration of the base. The U.S. Census of Agr. has regular data ranking farms by size, and sporadic data showing something about affixed vs. movable capital. Machinery and equipment and livestock are more concentrated than farm homes, for example. Industrial M&E is surely more concentrated than residential real estate.

3. A common form of avoidance is to put machinery on casters or wheels.

4. In 1879 the new California Constitution contained this interesting provision (compressed by me):

Article XIII: Taxation

Sec. 4, A mortgage is deemed as an interest in the property by which secured. Owner is assessed on equity; creditor assessed on the unpaid balance.

Thus, any intangible personal property that takes the form of a debt secured by land is just as site-specific as the land title, and just as sure to be recorded. It makes sense to me to put such deeds of trust in the tax base. It does not change the sum of the base, but meets a standard objection to taxing real estate.

Likewise, chattel mortgages and liens should be easy to track, assess, and enforce collections on - at least as easily as on the equity interest.

5. Sec. 7, prop taxes may be paid by instalments. Why do we assume it cannot be so?

6. Sec. 9, equalization shall never raise any mortgage above

✓

its face value.

6. Note how including mortgages in the base automatically forces equalization, and 100% assessment!)

7. Licenses to appropriate water are generally not on the tax rolls, with exceptions. Sometimes they are real; sometimes personal. That shows the chaos.

They are often treated as possessory interests. As their value rises, the inequity of exempting them, de jure or de facto, grows.

8. Dick Netzer gave us an interesting paper on this topic, 3-5 years ago. I suggest you look at it.

Thanks for letting me see this interesting paper. I will be sorry to miss it.

Sincerely,

cc: Dick Netzer

THE PROPERTY TAX, I

Major points, Ec 132

A. Base, rate, and taxable event

Base

1. 4 kinds of property: land, improvements, personal (tangible and intangible). Meaning of real estate; secured and unsecured rolls; furnishings and fixtures; possessory interests; state-assessed property; Board of Equalization.

2. Assessment of the Base. Constitution stipulates market value. Assessors also use capitalized income method, and historical cost, resulting in discrimination. Slow assessment cycles and lags behind market value. Institutionalized lag: Calif. after Prop 13.

3. Assessment discrimination

4. Preferential assessment

5. Exemptions

6. Aggregate values: a \$7 trillion base

7. Fractional assessment, the assessors' defense mechanism. Smoke and mirrors. Irene Hickman and the California Constitution.

Rate

1. Wide range of rates in U.S.; mean around 1.4%; effect of Prop. 13.

2. Nominal vs. real rates: games people play

3. Effects of high rates: how values adjust, investment remains profitable at lower level of land values

4. Tax shifting and tax capitalization

5. Why rates are higher and lower than they look

Higher because:

a. Based on lump value, not current flow

b. Undiluted by inflation

Lower because:

- a. Fractional assessment
- b. Conventional underassessment of rising values
- c. "Capitalization" means taxing only the after-tax value
- d. Assessment lag
- e. Deductible from income tax, even though much of the corresponding income not taxed currently, or ever

7. Why effective rate depends on interest rate

8. How to find the real interest rate, using the property tax rate as a tool

9. Graduated rates are uncommon

10. Classification and differential rates

Minnesota system: several classes of real estate

Southeastern system: homestead exemptions

Pennsylvania system: local option for exempting buildings wholly or partly, raising rate on land

Taxable Event

1. Based on holding, not doing. Reversing the love song theme, this tax is "not caring what you are, but just what you own"; (and thank you, Tommy Dorsey, for "There are Such Things")

2. Largely unavoidable because in rem, not in personam, and the land portion of the "rem" is not removable. Aliens pay, too; and offshore shelters don't cut any ice. Even Jimmy Goldsmith pays his share.

3. Simple collection enforcement: real estate is always hostage to the taxing jurisdiction of situs. Identify yourself, pay up, or the sheriff sells it.

4. Redemption rights and delinquency: more games people play

5. Automatic pass-through of rail and utility property taxes in higher rates: turning property tax into a user tax. Effect on incentives of utility managers: removal of penalty on

capital-intensiveness. Effect on rails: history of land-hogging.

B. Short History

Ancient

The oldest tax. Originally less a "tax" than a royal rent from the royal estate (hence "real estate"). Rome took tax in form of military service. This is inherently regressive -- smallholders gave us much as large holders. This wiped out smallholders and next the Roman Republic itself.

Feudal

Nearly universal in Europe and Asia. Land held subject to royal dues, often military service. William the Conqueror based dues on assessed values (The Domesday Book). Feudal basis of modern property law, land held from sovereign, subject to "servitudes", including taxation. Slow erosion of feudal principle in England over 9 centuries; new life in former English colonies.

American

Colonial Period

The main tax, especially in New England. William Bradford, Plymouth Plantation, land distribution and taxation. Contrast of English colonies with Spanish and Russian.

19th Century

"The tax that won the west". Characteristically American and Western: an element of native radicalism as per Jefferson, Jackson and Lincoln, but at the local level mainly. Resident settlers vs. absentee speculators. The opposition exemplified by Livingston and Hamilton in New York. Franklin's attack on the Penn heirs in Pennsylvania. Developmental tendency: used to finance infrastructure.

Parallel usage in other Anglo colonies: Canada, Australia, New Zealand, E. Africa, Singapore, Hong Kong.

20th Century

Gradually overborne by income, excise and payroll taxes. State subventions and Federal Revenue-sharing replace it at local level. Revival of property taxation, 1950-78, refuting conventional fallacy of revenue inelasticity.

C. Level of Government

Federal

Articles of Confederation, Article VII. U.S. Constitution, "Regulation of Apportionment": device to abort Federal property taxation, or rough method of equalization? No Federal property tax levied since 1863.

State

Yesterday, a major support; today, minor; tomorrow ... ?
Boards of Equalization: heritage of state property tax.

De facto state property taxation via "power equalization" and other formulae for sharing tax base of wealthy school districts with poorer ones. "Mandated Programs" where state requires counties to finance welfare services from property tax.

Utility property: state-assessed but locally taxed.
Relation of this to fractional assessment, equalization, and the alliance of utilities with local property tax opponents.

Local

Counties, cities, schools, and special districts.

Peculiar drama of special districts: "benefit assessments" are not legally taxes, hence exempt from Prop 13 cap; base is land only; franchise may be restricted and often has been, a subject of intense litigation and current controversy; pyramiding of power up to the MWD, a focus of the Southern California power structure.

Political Strategy

To parry the demand for national taxes on property, opponents like Madison and Hamilton diverted the tax to the local level, where local particularism puts a natural cap on the rate. Austen Chamberlain's campaign against the English land tax. Upton Sinclair's campaign for Governor of California and how he got licked by fear of "swamping the lifeboat". "Socialism" in British Columbia and how it turned into snob zoning.

D. Allocational Effects

Define "effects" of increasing the property tax.

1. Hold public spending constant and reduce other taxes.

Land tax is stimulating and developmental. An unusual "incentive tax" that motivates rather than drags.

Building tax:

a. In open economy is shifted to land (the Physiocratic model of Quesnay et al.), reducing in the process the capital-intensity of use. Sometimes reduces, sometimes increases labor-intensity of land use, as labor is substituted for capital.

b. In closed economy, reduces the RRAT but in a manner nearly neutral. The "Harberger" model, (although many others preceded him). This is currently often called "the new view" of property tax incidence, although "revived" or "exhumed" would be more accurate. It puts the supposedly conservative Chicago School (which Harberger represents) in the position of justifying heavy taxes on capital. This is not just an accidental deviation from the conservative stereotype, but is more consistent with Chicago's traditional effort to identify capital and land. Harberger in effect is treating the capital supply as fixed, just like land.

c. In partial equilibrium analysis, one form of capital is taxed while others are not. This reduces supply and tax is shifted forward, like an excise tax. These are called "excise tax effects". Models like this come from Musgrave and Netzer.

Tax on personal (movable) property

Much movable property escapes assessment. Uniformity is impossible; bias results.

2. Hold other taxes constant; increase spending.

Results depend on circumstances: how productive and useful is public spending? Are we short-changing schools and other people-services and falling behind other nations?

James Buchanan's view: all public spending is wasteful, so the best tax is the most destructive tax because it will raise the least revenue. (Curiously, Buchanan has spent his entire career teaching at tax-supported schools.)

Marshall's "onerous" vs. "beneficial" taxation, and its modern implications: tax property only for services to property, not to people.

Social dividend view: assert the public equity in property through taxation and spread the benefits around.

Feudal view: military spending is a service to property and property should support it. "Custer died for your sins," so don't just ask "what have you done for me lately?"

E. Distributional Effects

1. Allegations of regressivity
2. History of being regarded as progressive and "levelling". Bradford; Madison; Paine; Hamilton; Livingston; Quesnay; Du Pont; Franklin vs. the heirs of Wm. Penn; Patroons in New York, Patronos in California; resistance to organizing counties, incorporated municipalities, and taxing districts with universal suffrage; voter exclusion; Adam Smith, J.S. Mill, Henry George; Tom Johnson, Brand Whitlock, Newton Baker, cheap transit and civic revival, 1900-20; exporting tax ideas to LDCs after WWII; applications in Japan, Taiwan, Korea, Singapore, Hong Kong.
3. Contract vs. organic theory of government. "Benefits received" construed narrowly and broadly.
4. Maladministration: regressive assessment.
5. Balkanization. Low-tax enclaves in California. Fallacy of identification: enclaves of low income taxation in Wisconsin.
6. Concentration of property holdings. Dependence of high incomes on property sources. Especial concentration of unrealized "capital gains" which escape income tax but not property tax.
7. Regressive use of property. Slow sales by large holders.
8. Bias in partial inventories of wealth. Diversified large holders. Multi-national holders escape much income tax, but not property tax.
9. Allegations of forward shifting: Musgrave, Netzer.
10. High share of real estate is land: 45% of assessed value, probably 65% of true value (using building-residual method of separating).
11. Tax on capital not generally shifted forward, but downward. Still a tax on property.
12. Regression Fallacy. The Procrustean Bed of

"income", a catchword that has obscured analysis for 50 years. The use of AGI as the criterion of "like circumstances", horizontal equity and vertical equity.

13. Defining income properly. AGI is after loopholes, and no index to real income. Property income in various forms largely escapes AGI, and property provides loopholes to shelter other income.

14. Property taxes are not proportional to rents but to capital values, which are progressive w.r.t. rents.

15. Appreciating land is most closely held of all assets, and free of all but property taxes.

F. Central Government and Local Incentives

1. Social dividends issued nationally or statewide tend to make local governments compete to attract people.

2. Kinds of partial social dividends: G.I. Bill; loans with per person limits; school aids based on ADA; HEW payments; social security payments (not taxes); cash payments (e.g. Alaska); reapportionment according to population.

3. Competing for a fixed population is zero-sum, population-wise; but increases bargaining power of the movable population vis-a-vis holders of immovable property.

4. New move in Congress to assume more people-aids; shift more property aids to locals.

5. Negative social dividends: payroll tax; most of personal income tax; conscription; sales tax (except the portion shared locally); etc. Any exported tax based on population and/or activity acts as a negative social dividend. Marshall's "onerous" tax concept again.

6. Mandated county welfare spending, maximizes fear of "swamping the lifeboat". Turns local property tax into a "tragedy of the commons", one step removed. Kicking MediCal around.

7. The current imbalance: Feds subsidize land development while extracting negative social dividends. Result: exclusionary local zoning.

8. People-based revenue sharing formulae in other Federal states: Canada; West Germany.

G. Summary of rationale for property tax

1. Simultaneously progressive and incenting, resolving greatest trade-off in tax policy

2. Strikes surgically at non-functional source of economic power, exempts functional income. Implements the productivity theory of distribution and the Puritan ethic, at least w.r.t. labor. Exempt capital and it also implements the ethic w.r.t. saving.

3. Promotes intergenerational equity. Other taxes strike upward mobility.

4. If "Custer died for your sins" this tax makes us pay for our sins. (Alternatively, give it all back to the Indians and then tax it heavily.)

5. Is part of implied social compact -- or the actual Mayflower compact, as implemented by Bradford.

6. Promotes all three kinds of equity: functional; egalitarian; and market. And a fourth kind, too: interregional equity.

7. Penalizes cartels for holding excess capacity.

8. Is the effective seller motivation that keeps land markets from turning to glue. Moving the market reduces need for people to hold advance reserves.

9. Recoups for public the benefits of public works.

10. Moves landholders to respond quickly to new opportunities, e.g. from new extension of public works.

11. Offsets boom and bust in land markets (if assessors move quickly with the market).

12. Offsets major loopholes in the income tax.

13. Compensates those who missed out (or whose ancestors missed out) on the original political distribution of land by moving landholders to use land to: a, pay taxes; b, employ workers; c, produce goods.

14. An effective and indispensable part of "supply-side" macro-economics. Fights unemployment by promoting land use and investment.

15. Base is non-erosive, non-migratory.

16. Implements Haig-Simons by taxing unrealized capital

gains, inherently and automatically.

17. Imposes a Performance Standard on landholders:
"What have you done with the Golden Talents" which society has placed in your stewardship?

18. Does not discourage new investment (especially if capital is exempted).

19. Focuses on unearned income, which places one on a higher plane of well-being than the equivalent earned income since one has the leisure to enjoy it.