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Split Role Property Tax Initiative makes it to 2020 Ballot. Commercial and Industrial Properties May Be Subject to Reassessment

In the 1970s Californian voters passed Proposition 13, which set the ***property tax*** rate cap at 1% of the assessed value of real property at the time of purchase. It also prevented an increase in property tax basis of more than 2% per year. Given the drastic rise in bay area home prices over the past decades, many properties have a substantially lower property tax basis under Prop 13 then they would have if the properties were reassessed at current fair market value.

The ***Split Roll Initiative*** would, if passed, scale back the tax protections of Proposition 13 by assessing commercial and industrial properties to current fair market value, reassessing the properties every 3 years thereafter. While the 1% tax rate would still apply to properties zoned for commercial and industrial use, the 1% would be assessed against the ***current fair market value*** of the property.

For example, Intel purchased its Santa Clara headquarters in the 1970s and can expect to see an up-to *100-fold increase in property tax basis* if the split role initiative is passed. Such increases are expected to result in an estimated $11 billion net increase in property taxes per year.

The split role initiative will not impact the property taxes on properties zoned *residential*, whether the property is a family home or a 50-unit apartment building. Only properties zoned for commercial or industrial use are subject to reassessment under the terms of the initiative.

The good news is that there are exemptions. Businesses can avoid reassessment if they meet both of the following conditions:

1. The owner-operator operates the business on a majority of the real property.
2. The total fair market value of all property owned by the taxpayer in the state on which the business operates is less than 2 million dollars, scaled for inflation by a 2021 basis value.

There is also an additional tax cut for small businesses under split role. Businesses will have a $500,000 exemption on the business tangible personal property tax on equipment and fixtures, and businesses with 50 or fewer employees would be exempt from the personal property tax entirely. This modification would eliminate the equipment and fixtures tax for 90% of businesses in California.

The Initiative will be on the ballot for 2020 with a proposed 3-year transition period. The California Assessors Association stated that it was not feasible to transition in such a short time frame and estimates as much as $4.7 billion in costs over the next 10 years in order to implement the initiative. Even if the initiative does pass in 2020, backlogs and work overloads in the assessor's office would remain a huge concern that would likely delay implementation.

The most recent USC Dornsife poll of 980 registered voters found 46% in support of split roll with 22% opposed and 31% undecided. Given that Dornsife polls usually have a margin of error of 4 percent and the large number of people undecided, the November 2020 election could swing either way. We will continue to monitor the status of the initiative and update you if any new developments occur.

At McDowall Cotter, we offer decades of experience with wealth preservation and estate planning and a commitment to the kind of rigorous ongoing education that guarantees its integrity and success. If you are based in the San Francisco Peninsula, South Bay, Alameda County, and San Francisco, and are looking to make or update an existing will or trust, or need help with a probate or a trust administration because of the incapacity or death of a loved one, please feel free to schedule a consultation with our attorneys at McDowall Cotter, or join one of our events and meet our attorneys!

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