

California State Senate Measure Would Effectively Repeal Proposition 13 for Commercial and Industrial Property Owners

Senate Constitutional Amendment No. 5 was introduced into the California State Senate by Senators Loni Hancock and Holly Mitchell to modify the application of Proposition 13 to commercial and industrial property owners in California. Since the adoption of Proposition 13 in 1978, the statewide share of total assessed value made up by residential properties has increased from 55% to 72%, a statistic cited in S.C.A. No. 5 as a motivating factor for the measure.

S.C.A. No. 5, which would effectively repeal Proposition 13 for commercial and industrial property owners in California, was re-referred to the Senate Committee on Governance and Finance on Wednesday, July 8. The proposed ballot measure would, if passed in current form, cause all commercial and industrial properties in California to be reassessed for property tax purposes at their current fair market value no later than the 2019-20 fiscal year. If adopted, S.C.A. No. 5 would phase in the reassessment of commercial and industrial properties beginning in the 2018-19 fiscal year for the 50% of California commercial and industrial properties that have not been reassessed for the greatest number of years, with the balance of the commercial and industrial properties becoming subject to reassessment the following fiscal year. The payment of the increased property tax would also be phased in, with property owners in the first tranche of reassessments paying 1/3 of the increased tax in the 2018-19 fiscal year and 2/3 of the increased tax in the 2019-20 fiscal year while property owners in the second tranche of reassessments would pay 1/2 of the increased tax in the 2019-20 fiscal year. The increased tax would be fully phased in by the 2020-21 fiscal year. In addition, commercial and industrial property would be reassessed at their current fair market value in each fiscal year following the phase-in.

S.C.A. No. 5 would not apply to residential property, including single family and multi-family residential rental properties, but would apply to hotels and motels. Property used for commercial agricultural production would also be exempt from the changes proposed by S.C.A. No. 5.

S.C.A. No. 5 needs to be approved by the voters of California before it becomes law, so you will certainly hear more about the legislation if it makes its way onto the ballot. We will continue to monitor the legislation as it goes through the legislature so that we can advise our clients on how they would be affected if it does become law.

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