DIRECTORS' PERSPECTIVES (CONT.)

CALIFORNIA ELECTION UPDATE: WHAT IS PROP 19, ANYWAY?

BY: MARK MOLLINEAUX

If you were following the tax assessment beat during California's 2020 election, chances are you heard plenty about Proposition 15. As a bill that would unfreeze assessments for commercial properties, it was flashy, impactful, and activated political blocs both For (teacher unions) and Against (the California Business Roundtable).

Unfortunately, (from a tax equity perspective), Prop 15 was defeated by a razor-thin margin. But another 2020 California proposition about tax assessments did pass: Proposition 19.

Prop 19 was a controversial bill, for the very reason that even good-faith tax and land reformers didn't know whether it was worth supporting or opposing. (I personally saw a 50/50 split among friends and colleagues.) To understand why, let's break it down, and understand how weird it is.

But first, some history.

California's landmark Prop 13 (1978) has frozen tax assessments for all properties, which are only changed when a property is sold. (Assessments are allowed to increase 2% maximum each year, roughly keeping pace with the Consumer Price Index.) Prop 13 has devastated public programs in California, created a scarcity of housing stock, and also led to an interesting problem for its beneficiaries: lock-in. As California real estate has grown in price, those granted a diminished assessment have the additional incentive not to move, as they'd have to pay market value assessment on their new property. All of these factors work to freeze seniors in their home, even when downsizing or relocating would be in their favor.

This was ineffectively remedied through a number of additional propositions (60/90/110), which attempted to make assessments portable through both intra and inter-county moves.But, these only applied to a few counties, and required the new property to be effectively as cheap as the original property was (which, given increasing real estate prices in California, is far from likely).

The new amendment Prop 19 achieves three things:

- Allows assessments to transfer up to three times for seniors, the disabled, and fire victims, with a system of prorating the assessments of more expensive properties
- Re-assesses inherited property for non-primary residence, and also primary residence if the value has accrued more than one million dollars (effectively a partial repeal of Proposition 58, which extended Prop 13 to heirs)
- Funds are allocated for wildfire relief **(Cont. Page 7)**

THE TAX WE NEED FOR THE PANDEMIC ECONOMIC RECOVERY

BY:FRED FOLDVARY

How can a tax help rather than hinder an economic recovery? Believe it or not, a tax on land value would best stimulate economic recovery. A land value tax, like today's property taxes, is based on the value of land when put to its best productive use, regardless of the actual use or revenue from that plot of land. The value of buildings and other improvements is excluded. The result is that if the title holder is not putting that land to its best and highest use, the owner is suffering a loss, paying a tax not matched by revenue or benefits. Therefore, the owner has an incentive to put the land to its most productive use.

Greater productivity implies greater output, greater income, and greater employment. But there's a problem! Pre-pandemic, a shop or restaurant could hire employees and get to work. Today, many such small businesses are locked down, unable to operate, or only with limited and unprofitable capacity. To pay the rent and the tax on the rent or land value, these tenants (as well as homeowners) need an income, which they are currently are struggling to achieve.

The government needs to provide a substitute for the once normal income individuals obtained. The US government did just that in March 2020 when it enacted **(Cont. Page 7)**

DIRECTORS' PERSPECTIVES (CONT.)

PROP. 19 (CONT.)

Understanding the controversy:

THE PROS:

- The re-assessment for inheritance is unambiguously great, from a value capture/land equity angle
- The portability of assessments will lead to more mobility
- When an older resident moves out, the resulting re-assessment will be a win for revenue

THE CONS:

- When an older resident moves in to a new county, it'll be a loss for revenue (there's a revenue-sharing scheme built in, but it's far from obvious that it'll work to avoid unintended consequences)
- The initiative was designed rather cynically by Realtors ($47M was spent on the campaign on both sides. 99.3% of all money was on the Pro-19 side; .7% on the Con-19 side; essentially all of the money in support from the California Association of Realtors and the National Association of Realtors)
- The components of the initiative don't really make sense together; in fact, just the portable assessments component was put alone on the ballot in 2018 as Proposition 5, where it failed. The realtors used the re-assessment component of the bill to sweeten the deal, when in fact it would have been preferable to see the Prop 58 repeal stand on its own.
- Ditto the wildfire relief, which is an apparently focused-group way to give the campaign a more positive brand. The connection between local assessments and wildfire funding is tenuous at best
- The California Constitution is bloated with dubious, confusing, and ill-written amendments through the initiative process, which are impossible to remedy through normal legislation, and very difficult to reform through the ballot. The level of stringency one should have is as a result high.
- Did I mention how weird and cynical Prop 19 is? (Official opposition to the bill was a bizarre group, containing both the ACLU of Southern California, the League of Women Voters of California, and the Howard Jarvis Taxpayers Association)

In any case, it's now the law of the land, though it'll take quite a while for the effects of its reassessments to become known. Realtors (based upon online activity highlighting the benefits of Prop 19) are already enthusiastic about its ability to drum up business.

As for the necessary work of reforming California's land taxation schemes for the public benefit, it falls far short of the necessary (but politically difficult) work that must be done. We'll presumably see Prop 15 return in the future, and possibly more as budget crises loom.

PANDEMIC ECONOMIC RECOVERY (CONT.)

the CARES (Coronavirus Aid, Relief, and Economic Security) Act. Individuals received a one-time compensation of $1200, couples $2400, plus child support. The cash benefit was non-taxable. Small businesses also received relief. Some not-so-small businesses, aka corporations, also received relief funds.

Instead of one-time relief compensations, which need repeated enactments, the compensation for lost income should be periodic, paid every month. Under this notion, every enterprise and household would receive a monthly compensation for lost income. With the restoration of household and business income, local and state governments would obtain their normal tax and fee revenues.

The payment should be an 80% grant and a 20% optional interest-free loan. The recipient would need to have evidence of the previous income and of the legal inability to obtain income. Such evidence could be provided later, but there would be a stiff penalty for fraud.

The reason for the 80% grant limit, rather than 100%, would be to provide an incentive for the employee to obtain work and for the business to innovate and become productive. It would be a conditional basic income until the lockdowns end.

Since the owner of a real estate property, whether residential or commercial, is already paying a property tax, the owner would be able to deduct the portion of property tax due to the land value, from the land-value tax. For landlords, the land value tax would be deductible from income taxes. With the periodic compensation, property owners would be able to pay the land value tax as well as their current property tax, and their mortgages.

An objection to further coronavirus relief is that trillions of dollars has been paid out, and further payments would increase the already-huge federal budget deficit and debt. The response to this objection? If the lockdowns are justified by the science that has concluded that normal business spreads the disease, then there is a moral question of who should bear the burden.

If the relief is not continued, the lockdowns will unfairly burden some sectors of the economy. It's hard to justify one business' ability to have income and not another. Government should spread the burden on the entire economy by providing relief for those who lost income.

During a major war, governments go into debt to pay for some of the expenses. The urgent problem is to win the war, and the debt is taken care of later. The whole human world is now at war with COVID, and as with other wars, we need to spend the resources to defeat the enemy. This burden should be shared equitably.