✦ Property Tax

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✦ PROPERTY TAXES—OVERVIEW

This section provides information on tax expenditure programs (TEPs) that affect the property tax levies on real property and tangible personal property throughout the state. Virtually all property tax revenues are distributed among the various local government jurisdictions within the county in which the property is located. The property tax is largely administered by local assessors in each of the 58 counties. The Board of Equalization (BOE) provides oversight, is responsible for certain administrative functions, and assesses specific categories of properties.

GENERAL PROPERTY TAXES

Unlike most other state and local revenue sources, the property tax is a tax on "stock" (or point-in-time value) rather than on "flow" (such as an income flow under the PIT and BCT). Property taxes are levied on the owners of property and are based on the dollar value of the property at a particular point in time. For this reason, the property tax is sometimes referred to as an "ad valorem" (or "according to value") tax. The property tax applies to all classes of property—residential, commercial, industrial, agricultural, open space, timberland, and vacant land. The characteristics of the property tax, as well as certain administrative issues associated with it, are discussed below.

Tax Base. The property tax base consists of *real* property, as well as certain types of tangible *personal* property. Real property includes land, permanently attached improvements (such as buildings and other structures), permanent fixtures (such as installed equipment and machinery), mineral rights, most mobilehomes, and real property located on tax-exempt land. Personal property subject to the property tax includes equipment, portable machinery, office furniture, vessels, and aircraft.

As the following descriptions of property tax expenditure programs illustrate, many types of property are exempt from the property tax, due to a variety of reasons. For example, federal government property is not taxable under federal law. Property owned by other governments or charitable organizations is not generally subject to the tax, nor is household personal property, automobiles and trucks (although vehicles are subject to an "in-lieu" license fee), stocks and bonds, and business inventories. Based on the various exemptions to the property tax, it should not be viewed as a broad-based wealth tax, but rather as a levy on specific types of real and tangible personal property.

Assessment Procedures. The assessment of most property, including personal residences, office buildings, and personal property, is done *locally* by county assessors.

Certain types of properties are assessed by the *state*, since they typically involve activities which cross county boundaries and have value only in combination with their related properties. These properties assessed by the state include utility and railroad property, pipelines, flumes, canals, ditches, and aqueducts.

Prior to the adoption of Proposition 13 in June 1978, properties were assessed based on *market standards*. Using one or a combination of several methodologies, a determination was made as to what the property was currently worth on the open market—that is, its "fair market value." The process of property assessment changed dramatically as a result of Proposition 13's mandated constitutional changes. For locally assessed *real* property, the state changed from an assessment system based on *market value* to one based on *acquisition value*. The most important aspects of the current approach are as follows:

- Property is assessed at an amount equal to fair market value, based on the acquisition cost of the property.
- The acquisition-based, fair market value is allowed to increase by the rate of inflation (but not to exceed 2 percent per year), or decline based on a lower market value.
- Upon resale, the property is reassessed based on the new acquisition cost. New construction, including additions to existing property, is also subject to assessment based on acquisition or construction cost.
- Particular types of construction—such as reconstruction after a disaster, certain transfers of property, and specific new purchases—do not trigger a reassessment.

Most properties are assessed annually on January 1 (the lien date). For properties that change ownership during the calendar year, the supplemental roll is the mechanism used to record the change in assessment immediately. Through the supplemental roll, the new owner pays a prorated tax to reflect the new assessment for the remainder of the year.

Property other than locally assessed real property continues to be assessed based on *market standards* that were used for *all* property prior to the adoption of Proposition 13. This approach applies to both locally assessed *personal* property and *state* assessed property. For locally assessed personal property, the county assessor has the responsibility for determining fair market value. For state assessed property, this assessment responsibility falls upon the BOE. No single appraisal method is used in establishing fair market value; rather, it is dependent upon the type of property, the purpose for which it is used, and its particular market characteristics. Common approaches to property valuation include: purchase price, adjusted sales price of comparable properties, replacement cost, and discounted value of a property's income stream.

Tax Rate. As a result of Proposition 13, the basic county-wide property tax rate is constitutionally limited to 1 percent of assessed value, although lower rates are permitted. Additional levies are possible for the payment of voter approved general obligation debt or for the funding of employee retirement plans adopted prior to July 1, 1978.

Property tax rates can vary within a county due to variation in the debt rates that are levied by local governmental jurisdictions. For 1997-98, average county-wide tax rates ranged from 1 percent (for those counties with no add-on rate), to 1.189 percent (for the City and County of San Francisco). The state average of county-wide rates for 1997-98 was 1.067 percent. The revenue reduction estimates shown in the following individual TEP reviews are based on the 1 percent tax rate.

Tax Levy. The property tax levy is calculated by taking the taxable assessed value and multiplying it by the property tax rate. The growth rate in the taxable assessed value (net of exemptions) was 3.3 percent from 1996-97 through 1997-98, while the change in the total levy for the same period was slightly higher at 3.7 percent. This discrepancy was caused by a slight increase in the average tax rate, due to increased debt assessments. The property tax annually raises more than $20 billion.

Allocation of Revenues. Property tax revenues are allocated among the various local government jurisdictions *within the county* based on a formula determined by the Legislature. The allocation formula is based largely on the distribution of property tax revenues which existed just prior to the adoption of Proposition 13. For state assessed properties, the allocation of property tax revenues among counties is prorated based on the location of the property.

Due to the change in assessment procedures and the limitation on the property tax rate, property tax revenues underwent a dramatic decline after Proposition 13 was approved in 1978. With the reduction in revenues, property tax revenue allocation among local governments has been adjusted on a number of occasions by legislation since Proposition 13 was adopted. In addition, the allocation of property tax revenues varies among counties. On a statewide basis, however, cities currently receive an average of 11 percent of total property tax revenues, counties approximately 19 percent, school districts 52 percent, and other local entities 18 percent.

IN-LIEU PROPERTY TAXES

A number of types of property are exempt from the property tax and are instead subject to an alternative tax. The revenues from these in-lieu property taxes are either returned to local governments or retained by the state.

Private Railroad Car Tax. Owners of private railroad cars must pay the private railroad car tax on cars operated in California. Under the federal Railroad Revitalization and Regulatory Reform Act (4-R Act) adopted in 1976, states are prohibited from taxing railroad property more than other commercial and industrial property. Since railroad property is assessed annually based on fair market value, while commercial and industrial property is assessed based on acquisition value, California modifies its assessment of railroad cars using an adjustment ratio in order to comply with 4-R. For 1997-98, BOE applied an assessment ratio of 86.69. Revenues generated by the Private Railroad Car Tax are deposited in the state's General Fund. Total taxes billed in 1997-98 were $6.2 million.

Timber Yield Tax. Forest trees on private and public lands are subject to a severance tax at the time of their harvest, based on a tax rate which is determined periodically by the BOE. Since 1982, the tax rate has been 2.9 percent of the harvest value. Timber harvest volume from California lands has decreased in the recent past, declining from approximately 4.5 billion board feet in 1988 to approximately 2.4 billion board feet in 1996. Revenues are allocated to the counties where the timber is harvested, and totaled $26.7 million in calendar year 1996.

Racehorses. Qualifying racehorses are exempt from being taxed as personal property and instead are taxed based on their activities and earnings. This tax is administered by the counties, and revenues are treated in the same manner as general property taxes. The taxes are remitted to the assessor of the county in which the horses are quartered.

Vehicle License Fee (VLF). The VLF is an annual fee on the ownership of a registered vehicle in California, levied in place of taxing vehicles as personal property. Beginning January 1, 1999 (as part of a tax relief package enacted in 1998), the fee was lowered by 25 percent, bringing the tax rate to 1.5 percent of the estimated current value of the vehicle. All VLF revenues, as well as replacement revenues to account for the rate reduction, are distributed to cities and counties. The VLF raised about $4 billion in 1997-98.

Exemption (Assessment):

HOMEOWNERS' EXEMPTION

Program Characteristics	
Tax Type:	*Real Property Tax.*
Authorization:	*California State Constitution, Article XIII, Section 3(k), and California Revenue and Taxation Code Section 218.*

Estimated Revenue Reduction

(In Millions)

Fiscal Year	***Amount***
1996-97	*$356*
1997-98	*359*
1998-99	*362*

DESCRIPTION

This program provides homeowners a partial exemption from the property tax. The exemption, equivalent to $7,000 of the property's assessed value, is applicable only to a taxpayer's principal place of residence.

RATIONALE

This program provides property tax relief to owner-occupants of residential dwellings by reducing the assessed value of their property, and thereby lowering their property tax bills. The rationale for the program is that it encourages homeownership, and that increased homeownership results in higher levels of economic activity and promotes stability in individual neighborhoods and society generally.

The passage of Proposition 13 in 1978 provided major tax relief to all property owners—including homeowners. By fixing the basic property tax rate at 1 percent, Proposition 13 also had the effect of setting the level of tax relief provided by the homeowners' exemption at about $70 annually.

Exemption (Assessment):

HOUSEHOLD FURNISHINGS

Program Characteristics	
Tax Type:	*Personal Property Tax.*
Authorization:	*California State Constitution, Article XIII, Section 3(m), and California Revenue and Taxation Code Section 224.*

Estimated Revenue Reduction

(In Millions)

Fiscal Year	*Amount*
1996-97	*$500*
1997-98	*500*
1998-99	*500*

DESCRIPTION

This program exempts from the property tax all personal property owned by individuals, including household furnishings and pets. This exemption does not apply to aircraft, vehicles, or boats, or to personal property held and used in connection with a trade, profession, or business.

RATIONALE

This program provides tax relief to individuals by eliminating the tax on their qualifying personal property. The underlying rationale for the program is to simplify administration of the property tax. The identification and valuation of household items are difficult and often subjective tasks. Moreover, the value of many household property items is so low that the annual tax revenues attributable to them would not offset the costs of collecting these taxes.

Exemption (Reassessment):

TRANSFERS BETWEEN SPOUSES

Program Characteristics	
Tax Type:	*Real Property Tax.*
Authorization:	*California State Constitution, Article XIII A, Section 2(g), and California Revenue and Taxation Code Section 63.*

Estimated Revenue Reduction (In Millions)	
Fiscal Year	**Amount**
1996-97	NA
1997-98	NA
1998-99	NA

DESCRIPTION

This program exempts from reappraisal any property transferred between spouses. This exemption includes property transferred between spouses after: (1) a property settlement, (2) a decree of dissolution of a marriage or legal separation, or (3) upon death of a spouse. It also exempts from reappraisal the creation, transfer, or termination between spouses of a co-owned interest in property.

This exemption from reappraisal ensures that the property retains the taxable value ascribed to it prior to the transfer. Because the assessed value of the transferred property would otherwise be increased to reflect its current market value, this exemption reduces the tax assessed on qualifying property.

RATIONALE

This program was added by Proposition 58 in the November 1986 statewide general election. The rationale for the program is that a reappraisal should not be triggered when property is transferred to a spouse upon death of the other spouse, or upon dissolution of a marriage.

Exemption (Reassessment):

TRANSFERS BETWEEN FAMILY MEMBERS

Program Characteristics	
Tax Type:	*Real Property Tax.*
Authorization:	*California State Constitution, Article XIII A, Section 2(h), and California Revenue and Taxation Code Section 63.1.*

Estimated Revenue Reduction

(In Millions)

Fiscal Year	***Amount***
1996-97	*$1*
1997-98	*1*
1998-99	*1*

DESCRIPTION

This program exempts from reappraisal a property holder's principal residence, and up to $1 million in other real property, when the property is transferred between (1) parents and children, or (2) grandparents and grandchildren, provided that both parents of the grandchildren are deceased. This exemption from reappraisal provides that the transferred property retains the taxable value that it held prior to the transfer. Since the property would otherwise be reappraised at its current market value (which is generally higher than its taxable value) following the transfer, this program reduces the tax assessment on the specified property.

RATIONALE

This program provides tax relief to property owners by allowing parents and grandparents to transfer the family house and other property to their children or grandchildren without property tax consequences. Proponents of the program argue that transfers within the family deserve special treatment in order to preserve family homes, businesses, and farms.

COMMENTS

This program was added by Proposition 58 in the November 1986 statewide general election, and expanded (to include transfers by grandparents) by Proposition 193 in the March 1996 statewide primary election. This program provides a substantial reduction in property taxes for children or grandchildren who inherit (or otherwise receive) homes, farms, and other real property from their parents or grandparents if the property has been held for several years or more. In these cases, the property's assessed value may be significantly less than its current market value. There is no income limitation or other "needs test" for participants in this program.

Exemption (Reassessment):

REPLACEMENT HOUSING PURCHASED BY SENIOR CITIZENS

Program Characteristics	
Tax Type:	Real Property Tax.
Authorization:	California State Constitution, Article XIII A, Section 2(a), and California Revenue and Taxation Code Section 69.5.

Estimated Revenue Reduction

(In Millions)

Fiscal Year	Amount
1996-97	NA
1997-98	NA
1998-99	NA

DESCRIPTION

This program allows persons 55 years of age or older who sell their principal residence and buy or build another residence of equal or lesser value within two years, to transfer the old residence's assessed value to the new residence, provided that the replacement residence is within the same county as the original residence. In addition, this program allows the transfer of assessed valuation to a replacement dwelling located in a *different* county, provided that the county in which the replacement dwelling is located has adopted an ordinance allowing intercounty transfers of assessed value for elderly homeowners. A homeowner may benefit from this program only once.

RATIONALE

This program provides tax relief to taxpayers 55 years of age or older who sell their principal dwelling and then buy or build a replacement home. It does so by preventing the reassessment of the replacement home at its current market value. This results in a property tax savings to the extent that the market value of the replacement home is greater than the assessed value of the original home. The rationale for this program is that it removes a disincentive for senior citizens who no longer need family-sized dwellings or dwellings located near schools or places of employment to move to more suitable homes, thereby increasing the availability of suitable housing for younger families.

COMMENTS

This program is available to *all* persons age 55 and older, regardless of income or wealth status. For many seniors, a much more significant impediment to moving in past years was state and federal income tax treatment of capital gains on such home sales. This impediment has largely been eliminated by recent law changes.

This program was originally established when voters approved Proposition 60 at the November 1986 statewide general election. It applied, however, only to moves *within* a county. The approval of Proposition 90 at the November 1988 statewide general election authorized the Legislature to expand the program to allow counties to make this program available to seniors moving in from *another* county.

Exemption (Reassessment):

TRANSFERS WITHIN A JOINT-TENANCY AGREEMENT

Program Characteristics	
Tax Type:	Real Property Tax.
Authorization:	California Revenue and Taxation Code Section 65.

Estimated Revenue Reduction

(In Millions)

Fiscal Year	Amount
1996-97	NA
1997-98	NA
1998-99	NA

DESCRIPTION

This program exempts from reassessment any transfer of property among members of a specified joint-tenancy agreement. In order for the program to apply, the original transferor(s) of the property, or their spouses, must remain members of the joint tenancy after the transfer. When an original transferor leaves the joint tenancy, the property must be reassessed unless it vests to a remaining original transferor. If a joint tenant *other than* the original transferor leaves the joint tenancy, there is no reassessment if that tenant's share of the property is either transferred to an original transferor, or is distributed among all remaining joint tenants.

RATIONALE

This program provides tax relief to individuals by reducing the tax liability on property which has been transferred within a joint-tenancy agreement. The underlying rationale for the program is that joint-tenancy agreements essentially represent a single-ownership covenant, and that redistributions of property within the agreement, therefore, should not result in an increased tax liability.

Exemption (Reassessment):

MOBILEHOME PARK PROPERTY TRANSFERS TO TENANT COOPERATIVES

Program Characteristics	
Tax Type:	*Real Property Tax.*
Authorization:	*California Revenue and Taxation Code Sections 62.1 and 62.2.*

Estimated Revenue Reduction

(In Millions)

Fiscal Year	Amount
1996-97	NA
1997-98	NA
1998-99	NA

DESCRIPTION

This program exempts from reappraisal any mobilehome park property which is transferred to a qualified corporation formed by the tenants of the mobilehome park for the purpose of purchasing the park. To qualify for the exemption, within 270 days of the initial transfer, at least 51 percent of the corporation's stock must be owned by tenants previously renting at least 51 percent of the spaces prior to the transfer. The exemption from reappraisal under this program permits the transferred property to retain the assessed value ascribed to it prior to the transfer.

RATIONALE

This program provides tax relief to mobilehome residents who organize to purchase the mobilehome parks in which they reside. Such purchases may be motivated by the potential loss of long-term, mobilehome-space leases, higher rents for spaces, and other factors. The program's underlying rationale is to promote home ownership among mobilehome residents, many of whom are lower-income or elderly individuals.

COMMENTS

Chapter 139, Statutes of 1998 (AB 2384, Aguiar) extends this exemption indefinitely. It was previously scheduled to sunset January 1, 2000.

Exemption (Assessment):

BUSINESS INVENTORIES

Program Characteristics	
Tax Type:	*Personal Property Tax.*
Authorization:	*California Revenue and Taxation Code Section 219.*

Estimated Revenue Reduction	
(In Millions)	
Fiscal Year	***Amount***
1996-97	*$1,600*
1997-98	*1,760*
1998-99	*1,940*

DESCRIPTION

This program exempts personal property held as inventory by businesses from the property tax.

RATIONALE

This program provides tax relief to businesses that maintain inventories of products for sale in the course of doing business. The rationale for the program is that the application of the property tax to inventories causes extensive administrative problems for retailers and distributors, and may result in the loss of economic activity as businesses take actions to avoid the tax. To the extent that imposing the property tax on inventories would lead businesses to decrease their inventories or locate warehouses outside the state, another rationale for the program is to remove a "disincentive" to efficient inventory management, as well as encouraging inventory-related economic activity in California.

COMMENTS

Inventories were fully taxable prior to 1968, 15 percent exempt from 1968 to 1973, 50 percent exempt from 1974 to 1978, and fully exempt beginning in 1979.

This exemption encompasses a prior exemption for blood and human body parts held for medical purposes (California Revenue and Taxation Code Section 33).

Exemption (Assessment):
FINANCIAL ASSETS

Program Characteristics	
Tax Type:	*Personal Property Tax.*
Authorization:	*California Revenue and Taxation Code Section 212.*

Estimated Revenue Reduction
(In Millions)

Fiscal Year	Amount
1996-97	NA
1997-98	NA
1998-99	NA

DESCRIPTION

This program exempts from the property tax intangible personal property used by businesses—such as notes, debentures, capital stock, solvent credits, and mortgages. In addition, the program exempts money kept at hand which is used in the regular course of business. In the absence of this exemption, such assets would be considered as business personal property and be taxed as such. Bonds issued by the state or a local government are exempt from the property tax under this exemption as well as a more specific exemption (California State Constitution, Article XIII, Section 3[c], and California Revenue and Taxation Code Section 208).

RATIONALE

This program provides tax relief to businesses that own various intangible financial assets and money kept on hand. According to the Board of Equalization, the rationale for the program is that difficulties in administering the tax on such assets lead to unequal treatment of taxpayers. This is because financial assets can be very difficult to identify, and they easily can be moved outside of the state to avoid taxation. The assets covered under this program have been exempted in order to avoid such administrative difficulties and inequities.

Exemption (Assessment):
BUSINESS RECORDS

Program Characteristics	
Tax Type:	Personal Property Tax.
Authorization:	California Revenue and Taxation Code Section 997.

Estimated Revenue Reduction
(In Millions)

Fiscal Year	Amount
1996-97	NA
1997-98	NA
1998-99	NA

DESCRIPTION

This program exempts from the property tax business and professional records. The exemption applies to written documents and photographic reproductions, recorded data, research notes, calculations, and indices. However, the value of the media on which the records are stored (such as computer tape) is not exempt. In addition, the program does not apply to books, old newspapers on microfilm, computer programs, and records which are sold in the ordinary course of business.

RATIONALE

This program provides tax relief to persons engaged in a business or profession. The underlying rationale for the program is to simplify tax administration. The assessment of business records is a difficult and often subjective task. In most cases, moreover, these records have no value apart from that to the business itself. There are exceptions, however, such as the records of property transfers found in a title insurance business, or credit records of a credit bureau. Copies of these records might be sold to other parties who want to go into these businesses. In general, however, the value of business records is so low that the annual property tax revenues attributable to them would not offset the costs of assessing and collecting these taxes.

Exemption (Reassessment):

TRANSFERS OF INTERESTS IN CORPORATE OR PARTNERSHIP PROPERTY

Program Characteristics	
Tax Type:	*Real Property Tax.*
Authorization:	*California Revenue and Taxation Code Section 64.*

Estimated Revenue Reduction	
(In Millions)	
Fiscal Year	***Amount***
1996-97	*NA*
1997-98	*NA*
1998-99	*NA*

DESCRIPTION

This program exempts from reappraisal property owned by a legal entity (such as a corporation or partnership) and transferred pursuant to a corporate reorganization, or when 50 percent or less of the ownership interest in the entity is transferred (providing that control over the entity is not transferred). This exemption from reappraisal generally allows the transferred property to retain the assessed value ascribed to it prior to the transfer. In the absence of this exemption, the property's assessed value would be increased to reflect its current market value pursuant to the change-of-ownership provisions of Proposition 13.

RATIONALE

This program provides tax relief to the owners of corporations, partnerships, and other legal entities owning real property in California. The rationale for exempting from reappraisal the transfer of property pursuant to a corporate reorganization is that no real transfer of property has taken place. In the case of exempting transfers of 50 percent or less of an entity, program proponents argue that majority interest determines control, and that a transfer of a noncontrolling interest is not a substantive change of ownership.

COMMENTS

This program results from the necessity of defining the term “change in ownership” for properties owned by corporations, partnerships and other legal entities with multiple ownership. It seems reasonable that Proposition 13 did not intend to trigger change-in-ownership reassessments whenever a few shares of a large corporation are traded. The same corporation continues to own the property and there is no change in the control or use of the property due to a minor stock transfer. On the other hand, the outright sale of an entire legal entity to a new owner clearly *is* a real change in ownership even though the name of the corporation holding title to the property may remain the same. The Legislature determined that the appropriate definition of a change in ownership for these properties is a change in the controlling ownership of the legal entity holding title.

Property transfers among farm credit institutions due to reorganizations under federal law were included in this program by Chapter 560, Statutes of 1988 (SB 569, Garamendi).

Exemption (Reassessment):

TRANSFERS TO EMPLOYEE BENEFIT PLANS

Program Characteristics	
Tax Type:	*Real Property Tax.*
Authorization:	*California Revenue and Taxation Code Section 66.*

Estimated Revenue Reduction	
(In Millions)	
Fiscal Year	***Amount***
1996-97	*NA*
1997-98	*NA*
1998-99	*NA*

DESCRIPTION

This program exempts from reappraisal property transferred to an employee benefit plan. Transfers of property that are exempt under this program include: (1) the vesting of a participant's or beneficiary's interest in an employee benefit plan, (2) any contribution of real property to an employee benefit plan, and (3) any acquisition by an employee benefit plan of the stock of the employer's corporation for the purpose of control. An employee benefit plan is defined for the purposes of this program as either an employee pension plan, or as a plan or fund which provides employee welfare benefits (such as medical or hospital care, disability or unemployment benefits, daycare, job-related training, or legal services).

This exemption from reappraisal permits the property to retain the assessed value ascribed to it prior to the transfer. Because the assessed value would otherwise be increased following the transfer to reflect the market value of the property, this exemption reduces the property's tax assessment and, therefore, its property tax liability.

RATIONALE

This program provides a tax incentive for firms to improve the funding of, and the benefits provided by, their employee benefit plans. To the extent that the lower property tax liability promotes use of a greater variety of financing mechanisms for plans, the program may lead employers to contribute more to the plans and, hence, provide improved benefits to their employees.

In addition, the program provides tax relief to employees having a vested interest in employee benefit plans. It also provides relief to participants when an employee benefit plan acquires controlling interest in a company in order to prevent a corporate takeover.

One rationale underlying this program is to encourage employee participation in, and ownership of, businesses in the State of California.

Exemption (Assessment):
COMPUTER PROGRAMS

Program Characteristics	
Tax Type:	*Personal Property Tax.*
Authorization:	*California Revenue and Taxation Code Section 995.*

Estimated Revenue Reduction (In Millions)	
Fiscal Year	**Amount**
1996-97	$100
1997-98	100
1998-99	100

DESCRIPTION

This program exempts from the property tax *all* computer programs, except basic operational (including control) programs. The storage media for the programs are, however, taxable. Such storage media are defined under this program to include punch cards, tapes, discs, or drums.

RATIONALE

This program provides tax relief to the owners of computer programs. The underlying rationale for the program is to stimulate technological innovation in California by promoting the development and use of computers. The program's proponents also argue that the taxation of computer programs would be detrimental to the computer science industry because it would discourage the use of computer programs by other California industries. In addition, proponents argue that the valuation of custom software is a highly subjective and potentially arbitrary process.

COMMENTS

Custom computer programs also are exempt from the sales and use tax under California Revenue and Taxation Code Section 6010.9.

While valuing custom software may be difficult, standard software has well-established prices. Software purchases often comprise a significant portion of the total cost of a mainframe or personal computer installation, so that this exemption probably results in a revenue loss of more than $100 million annually.

Exemption (Assessment):

MOTION PICTURES

Program Characteristics	
Tax Type:	*Personal Property Tax.*
Authorization:	*California Revenue and Taxation Code Section 988.*

Estimated Revenue Reduction

(In Millions)

Fiscal Year	*Amount*
1996-97	*NA*
1997-98	*NA*
1998-99	*NA*

DESCRIPTION

This program provides that the value of motion pictures for property tax purposes is the full value of the *tangible materials* upon which the motion picture is recorded. As such, this program exempts intangible rights, such as the copyright, or right to reproduce, copy, and exhibit the motion picture, as well as the value added to the motion picture in the production process.

RATIONALE

This program provides an incentive for the motion picture industry to locate in California by reducing the operating costs associated with doing business in the state. According to program proponents, many motion picture companies have migrated to other states. This program is rationalized on the grounds that a healthy motion picture industry is important to the economic health of California.

COMMENTS

Intangible property, such as a copyright, never is taxable in and of itself because the property tax is levied only on real property or *tangible* personal property. However, the courts have ruled that, in valuing tangible property, assessors may take into consideration earnings from intangible rights that are associated with that property (*Michael Todd Co. v. Los Angeles County*, 57 Cal. 2nd 684, and *ITT World Communications v. Santa Clara County*, 101 Cal. App. 3d 246).

Exemption (Assessment):

HAND TOOLS

Program Characteristics	
Tax Type:	*Personal Property Tax.*
Authorization:	*California Revenue and Taxation Code Section 241.*

Estimated Revenue Reduction

(In Millions)

Fiscal Year	Amount
1996-97	$1
1997-98	1
1998-99	1

DESCRIPTION

This program exempts from taxation the first $20,000 in personal property that consists of hand tools owned and supplied by an employee that are required as a condition of employment, such as for some mechanics or construction workers. Hand tools consist of hand-held implements and equipment (including hand-held power tools) which may be transported to and from the workplace, and which are necessary for the ordinary and regular performance of the employee's work.

RATIONALE

These hand tools would be exempt if owned for personal use. In addition, as small objects, they would be difficult to assess accurately. As a result, this exemption helps to provide administrative simplicity to the property tax system.

Exemption (Assessment):

RETURNABLE CONTAINERS FOR SOFT DRINK BEVERAGES

Program Characteristics	
Tax Type:	*Personal Property Tax.*
Authorization:	*California Revenue and Taxation Code Section 996.*

Estimated Revenue Reduction (In Millions)	
Fiscal Year	***Amount***
1996-97	*NA*
1997-98	*NA*
1998-99	*NA*

DESCRIPTION

This program exempts from the property tax returnable beverage containers held on the property tax lien date by persons who are under a legally enforceable duty to return the containers for reuse. The program also exempts from taxation the containers that are not in the physical possession of the bottler on the lien date.

RATIONALE

This program provides tax relief to retailers who collect containers for return to a bottling company. In addition, it provides tax relief to bottling companies by exempting them from taxes on beverage containers held by retailers and consumers on the lien date. The program does not apply to bottles physically in possession of bottling companies on the lien date.

Proponents of this program defend its provisions on equity grounds. They argue that retailers should not be responsible for taxes on containers to which they do not hold title. They likewise argue that the bottling company should not bear the tax liability for bottles not in their possession, because many of these bottles will be broken or otherwise not returned to their bottling facilities.

Prior to 1973, county assessors generally assessed bottling companies for *all* of the containers they owned, including those held by retailers and consumers. Industry members complained, however, that certain assessors assessed both the bottling company *and* the retailers for the same containers. In 1973, the courts decided that bottlers were not liable for bottles outside their control on the lien date. This program codifies the relief granted to bottlers by the courts, and extends the relief to the retailers handling the bottles.

COMMENTS

Nonbusiness consumers of soft drinks generally are exempt from taxation of beverage containers under the constitutional exemption for household furnishings and personal effects.

Nonreturnable containers are business inventory and are exempt from property taxation under California Revenue and Taxation Code Section 219.

Exemption (Assessment):
STATE AND LOCAL GOVERNMENTS

Program Characteristics	
Tax Type:	*Real and Personal Property Tax.*
Authorization:	*California State Constitution, Article XIII, Sections 3(a) and 3(b), and California Revenue and Taxation Code Section 202(a)(4).*

Estimated Revenue Reduction

(In Millions)

Fiscal Year	Amount
1996-97	NA
1997-98	NA
1998-99	NA

DESCRIPTION

This program exempts from the property tax real property owned by the state or a local government (including special districts). Property owned by a city or county, but located outside of its boundaries, may be taxable, however, under Article XIII, Section 11 of the California Constitution. Property owned by the State Compensation Insurance Fund (SCIF) does not qualify for this exemption.

RATIONALE

In the absence of this exemption, local governments would be required, in essence, to pay property taxes to themselves. In addition, the exemption avoids situations when one level of government assesses the property of another level of government.

COMMENTS

Special provisions apply to the tax treatment of possessory interests, extraterritorial property, and property owned by the SCIF.

Possessory Interests. Use of tax-exempt government property for a private purpose generally results in a taxable possessory interest. For example, a lessee would have a taxable possessory interest for leased space that is used for a shop or public restaurant in a government building, and would be required to pay property taxes based upon the value of the possessory interest.

Extraterritorial Property. Any property (including water rights) located in Inyo or Mono counties and owned by a local government outside those counties is taxable if it was assessed in 1966 (for Inyo County) or 1967 (for Mono County). This provision primarily applies to property owned by the Los Angeles City Department of Water and Power in the Owens Valley. In other counties, real property located outside the boundaries of the owning local government is taxable if it was taxable when acquired by the local government or, for new construction, if it replaces a previously taxable improvement. Special formulas apply to the assessment of these properties.

State Compensation Insurance Fund. The SCIF is a semi-independent nonprofit agency, which was created by the state in 1919. The SCIF provides workers' compensation insurance to local public agencies, to state agencies requiring excess coverage, and to private companies. The SCIF also is required by law to be the insurer of last resort for high-risk companies. The SCIF is fully supported out of its premium structure. The SCIF maintains a headquarters office building in San Francisco and has district offices statewide. The exclusion of the SCIF from the general exemption appears to reflect the Legislature's desire to ensure that all of the SCIF's costs are reflected in its premium structure, in order to ensure parity between the SCIF and private insurance providers.

Exemption (Assessment):

LEASES BY A NONPROFIT CORPORATION TO A GOVERNMENT

Program Characteristics	
Tax Type:	Real Property Tax.
Authorization:	California Revenue and Taxation Code Section 231.

Estimated Revenue Reduction (In Millions)	
Fiscal Year	**Amount**
1996-97	NA
1997-98	NA
1998-99	NA

DESCRIPTION

This program exempts from the property tax real property which is owned by a nonprofit corporation and leased to a government entity. The property must be used exclusively by the government for specified governmental purposes, and must be located within the boundary of the leasing government. The lease arrangement also must ultimately transfer ownership of the property to the government. Property leased by the State Compensation Insurance Fund does not qualify for this program.

RATIONALE

This program essentially extends the property tax exemption generally available to government-owned property, to property owned by nonprofit corporations that governments have created as capital-outlay financing vehicles. For example, a government may create a "dummy" nonprofit corporation to issue tax- exempt securities to finance acquisition of a capital facility which the government entity then lease-purchases. The underlying rationale for the program is that such nonprofit corporations are, for all practical purposes, an "arm" of the government. Therefore, these corporations should share the tax-exempt status granted to regular government entities.

COMMENTS

Technically, this program is based on the exemption granted for charitable property in the California Constitution. Nonprofit corporations are deemed to be charities operating for the benefit of general governmental purposes.

Chapter 489, Statutes of 1990 (SB 2309, Greene), expanded this program to include golf courses leased to governmental entities.

Exemption (Assessment):

VOLUNTEER FIRE DEPARTMENTS

Program Characteristics	
Tax Type:	*Real and Personal Property Tax.*
Authorization:	*California State Constitution, Article XIII, Section 4(b), and California Revenue and Taxation Code Section 213.7.*

Estimated Revenue Reduction *(In Millions)*	
Fiscal Year	***Amount***
1996-97	*NA*
1997-98	*NA*
1998-99	*NA*

DESCRIPTION

This program exempts from the property tax real property which is both owned by a volunteer fire department and used exclusively for the department's purposes. For property to qualify, the fire department must have official recognition and at least partial financial support from a local government agency in whose jurisdiction the department is located. Qualifying property is deemed by this program to be used for charitable purposes and, therefore, is granted tax-exempt status under the welfare exemption in the California Constitution.

RATIONALE

This program provides tax relief to volunteer fire departments. The underlying rationale for the program is that volunteer fire departments render government-like services to the public.

Special Assessment:

RESTRICTED HISTORICAL PROPERTY

Program Characteristics	
Tax Type:	Real and Personal Property Tax.
Authorization:	California State Constitution, Article XIII, Section 8, and California Revenue and Taxation Code Sections 439 through 439.4.

Estimated Revenue Reduction

(In Millions)

Fiscal Year	Amount
1996-97	NA
1997-98	NA
1998-99	NA

DESCRIPTION

This program provides a partial exemption for restricted historical property. Eligible properties must be included on an official list of historical properties, and the property owner must enter into a contract with the city or county in which it is located that prohibits any alteration or use of the property that is not consistent with its historic designation. These contracts run for 10 years and are automatically extended each year so that 10 years always remain on the contract, unless the property owner or the local government objects.

In return for this restriction, the property is assessed in a special manner that generally reduces the amount of tax levied on it. Specifically, the assessment is based only on the income that the property can generate in its restricted use, and the assessed value is derived from this anticipated income stream using a special "historical risk component" that further reduces the computed amount of assessed value.

RATIONALE

This program provides an incentive to preserve and restore historical property in California by reducing the tax liability on such property. It is similar to the partial exemption for open-space lands.

COMMENTS

Prior to the adoption of Article XIII A of the California Constitution (Proposition 13), properties could be reassessed annually based on their "highest and best" use. For example, the assessed value of an historic house in an intensively developed downtown area could be based on the development potential of the property for an office building. The resulting property tax burden could have increased the cost of maintaining the historic property to the point that development of the property—in a way incompatible with its historical nature—became an economic necessity. An original argument for this program was that it removed this disincentive for historic preservation.

Under Proposition 13, however, reassessments occur only when a change in ownership or new construction takes place. Consequently, for existing property owners, an increase in the development potential of their property no longer increases their taxes.

Exemption (Assessment):

AIRCRAFT OWNED BY A GOVERNMENT AGENCY

Program Characteristics	
Tax Type:	*Personal Property Tax.*
Authorization:	*California Revenue and Taxation Code Sections 5331 and 5332.*

Estimated Revenue Reduction	
(In Millions)	
Fiscal Year	***Amount***
1996-97	*NA*
1997-98	*NA*
1998-99	*NA*

DESCRIPTION

This program exempts from the property tax any aircraft owned by the United States, a foreign government, or any local government agency.

RATIONALE

This program has two rationales. First, it simply recognizes that aircraft owned by the United States or a foreign government generally are immune from taxation under federal law and treaties. Second, the program extends the general exemption for property owned by a local government within its own boundaries to include aircraft based at airports outside the owning jurisdiction. This eliminates tax inequities that otherwise would occur because some local agencies do not have suitable airport facilities available within their own jurisdiction.

Exemption (Assessment):

FEDERAL PROPERTY USED FOR MIGRATORY FOWL

Program Characteristics	
Tax Type:	*Real Property Tax.*
Authorization:	*California Revenue and Taxation Code Section 254.2.*

Estimated Revenue Reduction

(In Millions)

Fiscal Year	*Amount*
1996-97	*Minor*
1997-98	*Minor*
1998-99	*Minor*

DESCRIPTION

This program exempts from the property tax federal property used exclusively for any of the following: (1) refuges for migratory water fowl, (2) promotion or protection of migratory water fowl, or (3) migratory water fowl public shooting grounds.

Federal property is generally exempt from the property tax, but property leased to a private party may involve a possessory interest. A possessory interest is the right to use the property and, under California law, is subject to the property tax. For example, if a private contractor operated a water fowl shooting ground on property leased from the federal government, the contractor ordinarily would be required to pay property tax on his or her possessory interest in the property. This program exempts the contractor from paying property taxes on such property.

RATIONALE

This program provides tax relief to the operators and users of public water fowl shooting grounds that are located on federal property.

Exemption (Assessment):

HOSPITAL, EDUCATIONAL, MUSEUM, SCIENTIFIC, OR CHARITABLE PURPOSES ("WELFARE EXEMPTION")

Program Characteristics	
Tax Type:	*Real and Personal Property Tax.*
Authorization:	*California State Constitution, Article XIII, Sections 4(b) and 5, and California Revenue and Taxation Code Sections 214 through 214.14, 215.2, 215.5, and 236.*

Estimated Revenue Reduction

(In Millions)

Fiscal Year	***Amount***
1996-97	*$337*
1997-98	*374*
1998-99	*415*

DESCRIPTION

This program exempts from the property tax specified real and personal property used *exclusively* for religious, hospital, educational, museum, scientific, or charitable purposes. (Charitable purposes, as defined by statute, now include a wide range of activities performed by nonprofit organizations for public benefit.) This program is commonly referred to as the "welfare exemption." The property must be owned (or leased for a term of 35 years or more) and operated by nonprofit corporations that meet specified requirements. The program also applies to real property that is under development and that ultimately will be used for the exempt purposes. Any possessory interest in government property held by a qualifying organization for qualifying purposes also is tax exempt.

Hospital property represents the single largest category of property qualifying for this program. Other examples of qualifying property include the following:

- Property used exclusively for purposes associated with a nursery school, or K-12 school.
- Property of a nonprofit educational radio or television station that does not sell advertising time.
- Real property used exclusively for the preservation of native plants or animals, biotic communities, or geological formations of scientific or educational interest.
- Museum property, including museum restaurants, gift shops, and items to be sold at a rummage sale.
- Property of nonprofit educational organizations generally.
- Specified property used exclusively for housing and related facilities for low-income, elderly, or disabled families.

RATIONALE

This program provides tax relief to the qualifying organizations. The rationale for the program is that these organizations fulfill a socially valuable function in providing property and services to the public and, therefore, are deserving of governmental financial assistance.

COMMENTS

The estimated revenue loss cited above *excludes* losses due to the "religious exemption," which we have included under the program that exempts church and religious property.

Exemption (Assessment):

RELIGIOUS WORSHIP OR RELIGIOUS PURPOSES ("CHURCH EXEMPTION")

Program Characteristics	
Tax Type:	*Real and Personal Property Tax.*
Authorization:	*California State Constitution, Article XIII, Sections 3(f), 4(b), and 4(d), and California Revenue and Taxation Code Sections 206, 206.1, 206.2, and 207.*

Estimated Revenue Reduction

(In Millions)

Fiscal Year	***Amount***
1996-97	*$82*
1997-98	*86*
1998-99	*89*

DESCRIPTION

The California Constitution, Article XIII, Section 3(f) directly exempts from taxation property used for religious worship. This is known as the "church exemption," and covers facilities used for religious instruction.

In addition, Article XIII, Sections 4(b) and 4(d) of the Constitution, authorizes the Legislature to exempt property used for religious purposes generally and for church parking. Under this broader "religious exemption," the Legislature has exempted from the property tax real property owned or leased exclusively for religious worship or other specified religious purposes. Under this program, church parking lots, social halls and community centers, retreats, nurseries and preschools, and parochial K-12 schools are exempt from the property tax.

RATIONALE

This program provides tax relief to religious organizations by exempting from taxation property used for religious purposes, church parking lots, and parochial schools. The purpose of the program is to promote the establishment and maintenance of houses of worship and related activities, by reducing their operating costs. The rationale offered is that religious institutions should be free from financial burdens imposed by government to the maximum possible extent.

COMMENTS

The religious exemption is included within the broader "welfare exemption" that covers property owned by qualifying nonprofit organizations and used for charitable, religious, or hospital purposes. Property owned by religious organizations and used primarily for charitable, rather than religious, purposes usually qualifies for a property tax exemption under the welfare exemption. The religious exemption generally does not apply to homes provided to religious leaders.

Exemption (Reassessment):
TRANSFERS WITHIN THE SAME RELIGIOUS DENOMINATION

Program Characteristics	
Tax Type:	Real Property Tax.
Authorization:	California Revenue and Taxation Code Section 62(k).

Estimated Revenue Reduction
(In Millions)

Fiscal Year	Amount
1996-97	$1
1997-98	1
1998-99	1

DESCRIPTION

This program exempts from reappraisal taxable property (for example, property which is not used for religious purposes) transferred between specified corporations belonging to the same religious denomination. The transferring and receiving corporations must be a "corporation sole" (that is, a corporation represented by an individual who has independent legal decision-making authority), religious corporation, or public-benefit corporation, and the same denomination's laws, rules, regulations, or canons must regulate the transferor and transferee.

In an hierarchical church, such as the Roman Catholic Church, each diocese is a corporation sole. Thus, in the absence of this program, a transfer of property from one diocese to another could trigger a property tax reassessment. This program provides that the transferred property retains the value ascribed to the property prior to the transfer.

Religious property owned by a religious organization is not affected by this program, because such property is exempt under the welfare exemption. However, many religious organizations own residences or income properties which are affected by this program.

RATIONALE

This program was sponsored by the California Catholic Conference to clarify that transfers of property between dioceses are exempt from reappraisal. The rationale behind the program is that the larger religious denomination, not the corporation sole, should be considered the owner of the property for tax purposes.

Exemption (Assessment):

LEASES BY A CHARITABLE ORGANIZATION TO A GOVERNMENT FOR CHARITABLE PURPOSES

Program Characteristics	
Tax Type:	Real Property Tax.
Authorization:	California Revenue and Taxation Code Section 214.6.

Estimated Revenue Reduction (In Millions)	
Fiscal Year	**Amount**
1996-97	NA
1997-98	NA
1998-99	NA

DESCRIPTION

This program exempts from the property tax real property which is owned by an organization qualifying for the welfare exemption, but which is leased by a government agency. The welfare exemption provides that property which is used by a qualified charitable organization exclusively for its own charitable purposes is exempt from the property tax. This program extends this tax exemption to property which is leased by such organizations to a government entity.

RATIONALE

This program provides an incentive to qualified charitable organizations to enter into leases of property to a governmental agency. The purpose of the program is to facilitate sale-leaseback arrangements between otherwise tax-exempt charitable organizations and government agencies. Such sale-leaseback arrangements are often undertaken by local governments as an alternative to borrowing funds for capital improvements.

The tax exemption gives the charitable organization an incentive to raise funds for its charitable purposes through leases with government agencies, since the organization will thereby incur no property tax. It also makes the government a more attractive lessor than other lessors in the eyes of the organization, since property leased to these other lessors *would* generally be taxable.

Exemption (Assessment):

PRIVATE PROPERTY USED BY A PUBLIC LIBRARY OR FREE MUSEUM

Program Characteristics	
Tax Type:	*Real and Personal Property Tax.*
Authorization:	*California State Constitution, Article XIII, Section 3(d), and California Revenue and Taxation Code Section 202(a)(2).*

Estimated Revenue Reduction

(In Millions)

Fiscal Year	Amount
1996-97	$1
1997-98	1
1998-99	1

DESCRIPTION

This program exempts from the property tax privately owned property used by a public library or a free museum.

RATIONALE

This program provides tax relief to public libraries and free museums by reducing their property tax liabilities. The program also provides an incentive for the establishment and maintenance of such institutions to the extent that it reduces their operating costs.

According to the Board of Equalization (BOE), in the case of public libraries, the exemption primarily applies to land or structures leased by a government for the operation of a public library. This is a common arrangement for the establishment of smaller branch libraries. In the absence of the exemption, the owner of the land would be liable for the property tax. This liability would be passed on to government in the form of higher rents. The exemption for public libraries exists to facilitate the leasing of land for the government operation of such facilities.

In the case of museums, the rationale behind the program is that museums that charge no admission are providing a public service.

COMMENTS

According to the BOE, the exemption for free museums is not widely used, as most private museums in California charge an admission fee.

Exemption (Assessment):

PUBLIC SCHOOLS, COLLEGES, AND UNIVERSITIES

Program Characteristics	
Tax Type:	Real and Personal Property Tax.
Authorization:	California State Constitution, Article XIII, Section 3(d), and California Revenue and Taxation Code Sections 202(a)(3) and 203.

Estimated Revenue Reduction

(In Millions)

Fiscal Year	Amount
1996-97	$1
1997-98	1
1998-99	1

DESCRIPTION

This program exempts from the property tax property used exclusively for public schools, community colleges, state colleges, and state universities (including the University of California). The exemption also applies to off-campus facilities owned or leased by an apprenticeship program sponsor, provided that these facilities are used exclusively by the public schools for specified classes.

RATIONALE

This program provides tax relief to public educational institutions by eliminating the tax on their properties. Thus, the exemption reduces the annual operating costs of public schools.

Exemption (Assessment):

PRIVATE COLLEGES AND SEMINARIES

Program Characteristics	
Tax Type:	Real and Personal Property Tax.
Authorization:	California State Constitution, Article XIII, Section 3(e), and California Revenue and Taxation Code Section 203.

Estimated Revenue Reduction

(In Millions)

Fiscal Year	Amount
1996-97	$66
1997-98	69
1998-99	72

DESCRIPTION

This program exempts from the property tax buildings, land, equipment, and securities used exclusively for educational purposes by private nonprofit colleges and seminaries. Qualifying institutions must meet specified admission requirements, and must confer upon their graduates at least one academic or professional degree based on a program of at least two years of liberal arts studies, or three years of professional studies.

RATIONALE

This program provides tax relief to private colleges and seminaries and to their students. It does so by annually reducing operating costs which are, in turn, passed on in the form of lower tuition and student fees. The rationale behind the program is that lower costs promote greater college participation.

Exemption (Assessment):

STATE COLLEGE MANAGEMENT

Program Characteristics	
Tax Type:	*Personal Property Tax.*
Authorization:	*California Revenue and Taxation Code Section 202.5.*

Estimated Revenue Reduction

(In Millions)

Fiscal Year	Amount
1996-97	NA
1997-98	NA
1998-99	NA

DESCRIPTION

This program exempts from the property tax personal property used in the management of state colleges, but *owned* by an auxiliary non-profit corporation or student body organization. In order to qualify, the state must have entered into a contract with the corporation or organization under which services are provided or equipment is leased.

RATIONALE

This program essentially extends the tax relief provided under the college exemption to student body organizations and other non-profit entities that provide services or lease equipment to state colleges. It also provides tax relief to the state colleges, to the extent that any property tax savings are passed on to the colleges in the form of lower costs. The rationale behind the program is to promote the establishment and maintenance of such organizations by lowering their operating costs.

Exemption (Assessment):

STUDENT BOOKSTORES

Program Characteristics	
Tax Type:	Personal Property Tax.
Authorization:	California Revenue and Taxation Code Sections 202.7 and 203.1.

Estimated Revenue Reduction (In Millions)	
Fiscal Year	**Amount**
1996-97	$1
1997-98	1
1998-99	1

DESCRIPTION

This program exempts from the property tax personal property used or owned by a nonprofit corporation which operates a student bookstore affiliated with a nonprofit college or seminary, or with the University of California.

RATIONALE

This program provides tax relief to nonprofit corporations, such as student body organizations, which operate bookstores for nonprofit colleges or seminaries. It also provides tax relief to bookstore customers, to the extent that lower operating costs are reflected in lower prices for books and student supplies. The rationale behind the program is that it promotes the establishment and maintenance of nonprofit bookstores by reducing their operating costs, which in turn can help to lower the costs to students of obtaining a college education.

Exemption (Assessment):
STUDENT BODY ORGANIZATIONS

Program Characteristics	
Tax Type:	*Personal Property Tax.*
Authorization:	*California Revenue and Taxation Code Section 202.6.*

Estimated Revenue Reduction

(In Millions)

Fiscal Year	Amount
1996-97	NA
1997-98	NA
1998-99	NA

DESCRIPTION

This program exempts from the property tax personal property owned or used exclusively by a qualified student body organization, as specified in the California Education Code. To qualify, the student body organization must be organized within a community college or K-12 public school.

RATIONALE

This program provides tax relief to specified student body organizations. The underlying rationale for the program is that these organizations play a supportive role in educational institutions through their fund-raising and social activities and, as such, are deserving of public financial support.

Exemption (Assessment):

NONPROFIT ENTITIES USING PROPERTY FOR SELECTED PUBLIC PURPOSES

Program Characteristics	
Tax Type:	Real and Personal Property Tax.
Authorization:	California State Constitution, Article XIII, Section 4(b), and California Revenue and Taxation Code Sections 201.1 through 201.4, and 201.6.

Estimated Revenue Reduction (In Millions)	
Fiscal Year	**Amount**
1996-97	NA
1997-98	NA
1998-99	NA

DESCRIPTION

This program exempts from the property tax real property which is owned by a qualified nonprofit entity and is used for a specified public purpose. Such qualifying purposes include property owned by a transit development board and property used exclusively for agricultural fair use pursuant to a contract with a county board of supervisors.

RATIONALE

This program provides tax relief to qualified nonprofit entities engaged in valid public purposes. As such, this exemption can be viewed as an extension of the exemption for government property. These nonprofit entities, however, would not be fully exempt from property taxation absent this exemption.

COMMENTS

This program initially was implemented to provide tax relief to the San Diego and Arizona Eastern Railroad. This company was created in the 1970s by the San Diego Metropolitan Transit Development Board, which was interested in acquiring the right-of-way for urban rail mass transit.

The manner in which the railroad was purchased ceded ownership to the nonprofit corporation. The transit authority made the purchase in this manner in order to avoid a laborious and expensive title search, and to comply with certain restrictions imposed by the federal Interstate Commerce Commission.

In 1980, the Board of Equalization (BOE) determined that the railroad was subject to property taxes because it was not owned by a government agency. Thus, without this program, the BOE would require taxation of the railroad's property.

Exemption (Assessment):

DESIGNATED INSTITUTIONS

Program Characteristics	
Tax Type:	*Real and Personal Property.*
Authorization:	*California State Constitution, Article XIII, Section 4(c), and California Revenue and Taxation Code Section 203.5.*

Estimated Revenue Reduction	
(In Millions)	
Fiscal Year	***Amount***
1996-97	*NA*
1997-98	*NA*
1998-99	*NA*

DESCRIPTION

This program exempts from the property tax real property owned by the California School of Mechanical Arts, California Academy of Sciences, and Cogswell Polytechnical College. It also exempts property held in trust for the Huntington Library and Art Gallery.

RATIONALE

This program provides direct tax relief to the above-cited institutions. It also provides relief to their students, to the extent that the lower property taxes are reflected in lower tuition and student fees. The rationale behind the program is to encourage the development and operation of the specified institutions, and reflects the view that these institutions are deserving of public financial support.

COMMENTS

The above constitutional provision authorizes the Legislature to implement this program, which it has done. Most property held by these institutions would be exempt under the welfare exemption. This program extends the exemption to *all* of their property, including property used for income production.

Exemption (Assessment):

CEMETERY PROPERTY

Program Characteristics	
Tax Type:	Real and Personal Property Tax.
Authorization:	California State Constitution, Article XIII, Section 3(g), and California Revenue and Taxation Code Section 204.

Estimated Revenue Reduction

(In Millions)

Fiscal Year	Amount
1996-97	$4
1997-98	5
1998-99	5

DESCRIPTION

This program exempts from the property tax qualified property owned by a nonprofit corporation which is (1) used or held for storing human remains or (2) used for the care and maintenance of such property. The program does not, however, apply to undeveloped property held for future use.

RATIONALE

This program provides tax relief to nonprofit corporations that sell and maintain cemetery plots, and to the individuals who purchase the plots.

One rationale for the program is that it simplifies administration of the property tax. Once in use, individual plots have little market value and, therefore, would generate minimal property tax revenues. Moreover, there are potentially significant problems involved with tax collection, particularly for older plots where an heir may no longer exist. The revenues generated from a property tax on individual plots probably would not, therefore, offset the costs of assessing and collecting the tax.

Exemption (Assessment):
SAN DIEGO SUPERCOMPUTER CENTER

Program Characteristics	
Tax Type:	*Personal Property Tax.*
Authorization:	*California Revenue and Taxation Code Section 226.*

Estimated Revenue Reduction	
(In Millions)	
Fiscal Year	***Amount***
1996-97	*NA*
1997-98	*NA*
1998-99	*NA*

DESCRIPTION

This program exempts from taxation all of the computer equipment of the San Diego Supercomputer Center, located on the campus of the University of California, San Diego. Although the computer center is owned by the university and is exempt from direct taxation under the general exemption for university property, it is leased to a private operator. This lease creates a possessory interest in the computer center, which would be taxable in the absence of this program.

RATIONALE

The program reduces the operating costs of the San Diego Supercomputer Center by eliminating annual property tax payments. The rationale for the program is that most of the funding for operating the center comes from the federal government and the university, and the center serves public policy objectives established by the National Science Foundation. Consequently, it is argued that the center serves a worthy public purpose, and exempting it from taxation reduces the level of federal and university funds that must be raised each year to support its operating costs.

COMMENTS

This program was established by Chapter 1559, Statutes of 1988 (SB 2584, Ellis).

Exemption (Reassessment):
DISASTER-DAMAGED PROPERTY

Program Characteristics	
Tax Type:	*Real Property Tax.*
Authorization:	*California State Constitution, Article XIII A, Sections 2(a), (2e), and 2(f), and California Revenue and Taxation Code Sections 69, 69.3, and 5825(c).*

Estimated Revenue Reduction	
(In Millions)	
Fiscal Year	***Amount***
1996-97	*NA*
1997-98	*NA*
1998-99	*NA*

DESCRIPTION

This program provides that property which is either rebuilt or acquired as a replacement for disaster-damaged property shall be assessed at the same value as the original property prior to the disaster.

In the case of real property, qualifying property must have been damaged on or after July 1, 1985, and: (1) the Governor must have declared that a disaster occurred, (2) the disaster must have reduced the market value of the property by more than one-half, and (3) the replacement property must be comparable to, and located in the same county as the property damaged by the disaster. Property owners may transfer the base year value of qualifying disaster-damaged properties to *another* county, provided that the board of supervisors in that county has adopted an ordinance authorizing such transfers. In cases where the market value of the replacement property exceeds 120 percent of the market value of the original property, the original assessment is adjusted upward by the amount of the excess.

For mobilehomes that are taxed as personal property, this exemption provides that assessed value will not increase for any mobilehome that has been reconstructed or replaced by a comparable mobilehome due to damage or destruction by any misfortune or calamity.

RATIONALE

This program provides tax relief to disaster victims by reducing their tax liability on rebuilt or replacement property. The rationale for the program is that persons who are forced to replace their residences on account of a natural disaster should not have to face an increased tax liability as an additional consequence of the disaster.

COMMENTS

The constitutional provisions of this exemption were approved by the voters as Proposition 8 (November 1978), Proposition 50 (June 1986), and Proposition 171 (November 1993). The provisions authorizing intercounty transfers were added by Chapter 72, Statutes of 1994 (AB 382, Lee).

Special Assessment:

PROPERTY DAMAGED BY MISFORTUNE OR CALAMITY

Program Characteristics	
Tax Type:	*Real Property Tax*
Authorization:	*California State Constitution, Article XIII A, Sections 2(e) and 2(f), and California Revenue and Taxation Code Section 170.*

Estimated Revenue Reduction *(In Millions)*	
Fiscal Year	***Amount***
1996-97	*$1*
1997-98	*1*
1998-99	*1*

DESCRIPTION

This program reduces the *assessed* value of qualified damaged property in proportion to the reduction in the *market* value of the property caused by the damage. Because the assessed value of most properties is significantly less than their current market value, this program can provide a tax reduction for properties whose market value after the damage still exceeds their pre-damage assessed value. In the absence of this program, the assessed value of damaged property is reduced only if its market value after the damage is less than its assessed value. In order to qualify under the program, the damage must have been caused by a disaster, or by misfortune or calamity, and the damage must be at least $5,000. The program is available only if adopted by a county ordinance.

Example. A supermarket with a market value of $1 million and an assessed value of $700,000 sustains $200,000 of damage in an earthquake. The damage reduces the market value of the property by 20 percent and, therefore, the assessed value also is reduced by 20 percent—to $560,000. In the absence of this program, there would not be any reduction in assessed value, because the damage has not reduced the property's market value below its existing assessed value.

RATIONALE

The program provides tax relief to owners of property damaged in a disaster or in calamities, such as fires. The program is rationalized on the basis that property owners who suffer disasters or calamities should receive tax relief in order to mitigate their losses.

COMMENTS

Not all counties have ordinances implementing this program. Some counties have adopted an implementing ordinance only for a limited period of time following major disasters.

Exemption (Reassessment):
ENVIRONMENTAL CONTAMINATION

Program Characteristics	
Tax Type:	*Real Property Tax.*
Authorization:	*California State Constitution, Article XIII A, Section 2(i).*

Estimated Revenue Reduction
(In Millions)

Fiscal Year	Amount
1996-97	—
1997-98	—
1998-99	$1

DESCRIPTION

This exemption allows property owners to transfer their current assessed value to a replacement property within their county if the original property was environmentally contaminated. This contamination could be caused, for example, by the presence of toxic or hazardous materials. The replacement property could involve either (1) the repair or reconstruction of a damaged structure *on* the contaminated site or (2) purchase of a similar structure on a *different* site.

In order to qualify for this special treatment, *all* of the following conditions need to be met:

- A residential property (for example, a house or condominium) is made uninhabitable or a nonresidential property (for example, a store or business) is made unusable by an environmental problem.
- The current owner did not know of the environmental problem when the property was purchased or built.
- A state or federal government agency designates the property as a toxic hazard, environmental hazard, or environmental clean-up site.
- A property is substantially damaged or destroyed by the environmental clean-up efforts.
- A lead government agency stipulates that the property was not made uninhabitable or unusable by an act or omission of the current owner.

The exemption applies only to replacement property acquired, constructed, or repaired (1) after January 1, 1995 and (2) within five years after ownership of the contaminated property is sold or transferred. A county is given the authority to extend this exemption to property owners moving from *other* counties and replacing environmentally contaminated property.

RATIONALE

This program is similar to the existing exemption for owners of property damaged by natural disasters. Since the property owner must not have caused the environmental contamination in order to qualify for the exemption, tax relief is given to property owners who are suffering from an environmental problem outside of their control.

COMMENTS

This exemption was added to the Constitution by the voters as Proposition 1 in November 1998. As result, it has not yet been used and it is unclear how many properties will be eligible under its provisions.

Exemption (Reassessment):

PROPERTY CONDEMNED PURSUANT TO EMINENT DOMAIN PROCEEDINGS

Program Characteristics	
Tax Type:	*Real Property Tax.*
Authorization:	*California State Constitution, Article XIII A, Section 2(d), and California Revenue and Taxation Code Sections 68 and 5825(d).*

Estimated Revenue Reduction

(In Millions)

Fiscal Year	Amount
1996-97	NA
1997-98	NA
1998-99	NA

DESCRIPTION

This program allows the owner of real property or a mobile home acquired by a government entity through eminent domain proceedings or inverse condemnation, to carry over his or her original assessed value to a comparable replacement property. In cases where the market value of the replacement property exceeds 120 percent of the market value of the original property, the original assessment is adjusted upward by the amount of this excess.

This program seeks to ensure that taxes on a similar new property are equivalent to those that were levied on the old property prior to its acquisition by a government. To the extent that the market value of the replacement property exceeds the assessed value of the original property, this program effectively reduces the tax assessment on the replacement property. Moreover, this program excludes from the assessed value a portion of the market value of a more expensive replacement property.

RATIONALE

This program provides tax relief to property owners who are displaced from their property as a result of eminent domain proceedings. The rationale for this program is that property owners who must move because the government has taken their property should not also be required to pay higher taxes simply because they acquire replacement property.

Exemption (Assessment):

EARTHQUAKE SAFETY IMPROVEMENTS

Program Characteristics	
Tax Type:	Real Property Tax.
Authorization:	California State Constitution, Article XIII A, Section 2(a), 2(c), and California Revenue and Taxation Code Sections 70(d) and 74.5.

Estimated Revenue Reduction
(In Millions)

Fiscal Year	Amount
1996-97	NA
1997-98	NA
1998-99	NA

DESCRIPTION

This program exempts from reassessment as new construction any qualifying reconstruction or improvements made to existing buildings after November 5, 1990 that have been identified by local governments as being hazardous to life in the event of an earthquake. In order to qualify, the reconstruction or improvements must be required by a local earthquake safety ordinance or employ earthquake hazard mitigation technologies approved by the State Architect. In the case of required improvements to buildings with unreinforced masonry-bearing walls, the exemption is limited to 15 years, but it includes improvements made after June 4, 1984.

RATIONALE

This program provides tax relief to property owners who add qualifying earthquake safety improvements to their buildings. It does this by eliminating any increase in assessed value that otherwise would take place because of the value added to such buildings by these improvements. The primary rationale for the program is to protect life and property by promoting the rehabilitation of buildings that would be unsafe in an earthquake. Program proponents also argue that providing an incentive for earthquake safety improvements will protect the tax base and reduce future disaster mitigation costs.

COMMENTS

The 15-year exemption for improvements to buildings with unreinforced masonry-bearing walls was authorized by Proposition 23, adopted at the June 1984 statewide primary election. The authority for the unlimited exemption for earthquake safety improvements to other types of buildings was added by Proposition 127, approved at the November 1990 statewide general election.

Exemption (Reassessment):
FIRE SAFETY IMPROVEMENTS

Program Characteristics	
Tax Type:	*Real Property Tax.*
Authorization:	*California State Constitution, Article XIII A, Section 2(c)(2), and California Revenue and Taxation Code Section 74.*

Estimated Revenue Reduction
(In Millions)

Fiscal Year	*Amount*
1996-97	*NA*
1997-98	*NA*
1998-99	*NA*

DESCRIPTION

This program exempts from reappraisal as new construction the construction or installation in an existing building of fire sprinkler systems, other fire extinguishing systems, fire detection systems, or fire-related egress improvements. The exemption applies to systems completed on or after November 7, 1984.

RATIONALE

This program provides tax relief to building owners who add fire safety improvements to their buildings. It does so by exempting such systems from reappraisal as new construction, thus reducing the cost to the property owner of providing for the fire equipment. Upon a change in ownership, however, the value of the fire equipment would be reflected in the new assessed value of the property to the extent that it increases the property's market value.

COMMENTS

Fire safety improvements often are required by local building codes when older buildings are renovated. This exemption was approved by the voters in November 1984 as Proposition 31.

Exemption (Reassessment):

IMPROVEMENTS FOR DISABLED ACCESSIBILITY

Program Characteristics	
Tax Type:	*Real Property Tax.*
Authorization:	*California State Constitution, Article XIII A, Section 2(c), and California Revenue and Taxation Code Section 74.6.*

Estimated Revenue Reduction

(In Millions)

Fiscal Year	Amount
1996-97	$10
1997-98	10
1998-99	10

DESCRIPTION

This program exempts from reassessment as new construction any qualifying improvements or modifications made to existing buildings on or after June 7, 1994 that have been made to improve accessibility by disabled persons. Such improvements include access ramps, widening of doorways and hallways, barrier removal, access modifications to restroom facilities and elevators, and any other modification that would cause it to meet or exceed the accessibility standards of the 1990 Americans With Disabilities Act and the most recent California Building Standards Code that is in effect on the date of the application for a building permit.

RATIONALE

This program provides tax relief to property owners who make modifications to their buildings to improve accessibility for disabled persons. It does this by eliminating any increase in assessed value that otherwise would take place because of the value added to such buildings by these modifications. The primary rationale for the program is to encourage property owners to make modifications to improve accessibility for disabled persons.

COMMENTS

This program was added by Proposition 110 of the June 1990 statewide primary election.

Exemption (Reassessment):

HOMES AND IMPROVEMENTS FOR DISABLED PERSONS

Program Characteristics	
Tax Type:	*Real Property Tax.*
Authorization:	*California State Constitution, Article XIII A, Sections 2(c) and 3, and California Revenue and Taxation Code Sections 69.5 and 74.3.*

Estimated Revenue Reduction

(In Millions)

Fiscal Year	*Amount*
1996-97	*NA*
1997-98	*NA*
1998-99	*NA*

DESCRIPTION

This program allows severely and permanently disabled persons, regardless of their age, to transfer the assessed value of their existing home to a replacement home in the same manner as provided for homeowners over the age of 55. In order to qualify, the disability must necessitate the move for either physical or financial reasons. The replacement residence generally must be in the same county as the original residence, and it must be bought or built within two years of the sale of the original dwelling. Further, the value of the replacement home cannot exceed the value of the original residence. In addition, this program allows the transfer of assessed valuation to a replacement dwelling located in a different county, provided that the county in which the replacement dwelling is located has adopted an ordinance allowing intercounty transfers of assessed value.

This program also excludes from reappraisal any building improvements that make an owner-occupied home more accessible to, and usable by, a permanently and severely disabled person who is a permanent resident of the dwelling.

RATIONALE

This program provides tax relief to disabled persons who must move because of their disability. It does so by preventing the reassessment of the replacement home at its current market value. This results in a property tax savings to the disabled person to the extent that the market value of the replacement home is greater than the assessed value of the original home. The program also prevents any increase in property taxes that otherwise would result from improvements made to a home to accommodate a disabled person. Program proponents argue that disabilities reduce or eliminate income, so that disabled persons who must move or modify their dwellings often cannot afford higher property taxes.

COMMENTS

Although the program's rationale is based on the need to provide tax relief to disabled persons, specific evidence of need is generally not required to qualify.

This program was authorized by Proposition 110, which was approved at the June 1990 statewide primary election, and was implemented by Chapter 1494, Statutes of 1990 (AB 3843, Cannella). It applies to replacement homes acquired and improvements completed after June 5, 1990.

Exemption (Assessment):
ACTIVE SOLAR ENERGY SYSTEMS

Program Characteristics	
Tax Type:	*Real Property Tax.*
Authorization:	*California State Constitution, Article XIII A, Section 2(c)(1), and California Revenue and Taxation Code Section 73.*

Estimated Revenue Reduction
(In Millions)

Fiscal Year	Amount
1996-97	NA
1997-98	NA
1998-99	NA

DESCRIPTION

This program exempts from assessment as new construction certain active solar energy systems. To qualify, a system must produce heat, electricity, or mechanical energy, and its collection and storage devices must be thermally isolated from the space where the energy is used. Wind energy systems do not qualify. The exemption applies to systems constructed or added after March 1, 1981. The law also specifies that the exemption does not apply to that portion of the construction or addition associated with solar swimming pool heaters which is in excess of the cost of a comparable conventional fossil fuel heating system. Because they are not assessed when they are built, qualifying solar energy systems remain exempt from property taxation until a change of ownership occurs and triggers an assessment.

RATIONALE

This program provides a tax incentive for the expanded use of solar energy technology. It accomplishes this by reducing the relative cost of such installations compared to conventional systems. This reduction in the relative cost of active solar energy systems may, in combination with the net energy cost savings provided by such systems, result in lower total installation, operating, and maintenance costs over the system's life than the total costs for comparable conventional systems. The program’s underlying rationale is the view that promoting solar energy technologies is desirable and, therefore, worthy of public financial support.

COMMENTS

This program is scheduled to sunset on January 1, 2006.

Exemption (Assessment):

VETERANS' EXEMPTION

Program Characteristics	
Tax Type:	*Real and Personal Property Tax.*
Authorization:	*California State Constitution, Article XIII, Sections 3(o), 3(p), 3(q), and 3(r), and California Revenue and Taxation Code Sections 205 and 205.1.*

Estimated Revenue Reduction

(In Millions)

Fiscal Year	Amount
1996-97	Minor
1997-98	Minor
1998-99	Minor

DESCRIPTION

This program exempts from the property tax up to the first $4,000 of assessed value of property owned by a veteran. Veterans may not claim both this exemption and the homeowners' exemption on the same piece of property. Most U.S. veterans qualify for the program. In addition, property owned by a veteran's widow or widower may qualify for the exemption as long as he or she remains unmarried. A deceased veteran's parents also may qualify.

RATIONALE

This program is intended to provide tax relief to qualified veterans and their families. The rationale for the program is that veterans have served their country and, therefore, are deserving of certain governmental benefits.

COMMENTS

According to the Board of Equalization (BOE), this exemption has not been claimed frequently since the homeowners' exemption became available. This is because the homeowners' exemption has the greater value to the taxpayer. The BOE also points out that, when this exemption is claimed, it most commonly is claimed on boats and airplanes.

Previous requirements that veterans must have resided in California when they were inducted into the armed services were deleted by Proposition 93, approved in the November 1988 statewide general election. Similar residency requirements in other states have been judged unconstitutional by the federal courts.

Exemption (Assessment):

DISABLED VETERANS' PRINCIPAL RESIDENCE

Program Characteristics	
Tax Type:	*Real Property Tax.*
Authorization:	*California State Constitution, Article XIII, Section 4(a), and California Revenue and Taxation Code Section 205.5.*

Estimated Revenue Reduction

(In Millions)

Fiscal Year	*Amount*
1996-97	*$10*
1997-98	*11*
1998-99	*12*

DESCRIPTION

This program exempts from the property tax a portion of the assessed value of the principal residence owned by a disabled veteran, or by the disabled veterans' unmarried surviving spouse. The value of the exemption varies with the disability and the claimant's income. The program generally exempts up to $40,000 of assessed value for veterans who have lost two or more limbs or are blind in both eyes. Totally disabled veterans (as determined by the U.S. Department of Veterans' Affairs) receive exemptions of up to $100,000 of assessed value. The maximum exemption amounts above increase to $60,000 (in the case of blindness or loss of two limbs) and $150,000 (for total disability), for low-income disabled veterans or surviving spouses.

Program participants cannot also claim the general veterans' property tax exemption or the homeowners' exemption. The larger exemption for totally disabled veterans and surviving spouses terminates on January 1, 2001, a change which will affect property taxes due in 2001-02 and thereafter.

RATIONALE

This program initially was designed to provide tax relief to disabled veterans who must install special ramps and fixtures. The program was intended to eliminate the tax on such specially installed improvements. In 1974, however, the program was extended to apply to a portion of the assessed value of a disabled veterans' principal residence, regardless of whether the home has special features.

The rationale for the program is two-fold. First, it is thought to be inequitable for veterans to pay property tax on residential improvements required by a service-related injury. Second, disabled veterans, by virtue of their service to their country, are thought to be entitled to certain publicly provided benefits.

COMMENTS

The higher exemption amounts for totally disabled veterans would have sunsetted on January 1, 1991, but were extended until 1996 by Chapter 1077, Statutes of 1989 (SB 320, Royce) and extended again until 2001 by Chapter 536, Statutes of 1995 (AB 3, Baca). This measure also increased the totally disabled exemption from $100,000 to $150,000 for low-income veterans or surviving spouses. According to the Board of Equalization, most veterans who claim this exemption do so on the basis of total disability.

Proposition 110, adopted at the June 1990 statewide primary election and implemented by Chapter 1494, Statutes of 1990 (AB 3843, Cannella), provides an exemption from assessment as new construction for disability-related modifications made to the home of any severely and permanently disabled person. A veteran may benefit from this assessment exemption in addition to this program.

Exemption (Assessment):

REAL PROPERTY OF SPECIFIED VETERANS' ORGANIZATIONS

Program Characteristics	
Tax Type:	*Real Property Tax.*
Authorization:	*California State Constitution, Article XIII, Section 4(b), and California Revenue and Taxation Code Section 215.1.*

Estimated Revenue Reduction

(In Millions)

Fiscal Year	*Amount*
1996-97	*Minor*
1997-98	*Minor*
1998-99	*Minor*

DESCRIPTION

This program exempts from the property tax real property owned by a qualified nonprofit veterans' organization. To qualify, the organization must have been chartered by the United States Congress, and organized and operated for charitable purposes. The exempt property must be used *exclusively* for *charitable* purposes. For example, property used *primarily* for veterans' social activities would not qualify.

RATIONALE

This program provides tax relief to qualified veterans' groups by relieving them of taxes on their real property. The rationale behind this program is to promote charitable activities by qualifying veterans' organizations.

Exemption (Assessment):

PERSONAL PROPERTY OF SPECIFIED VETERANS' ORGANIZATIONS

Program Characteristics	
Tax Type:	*Personal Property Tax.*
Authorization:	*California Revenue and Taxation Code Section 215.*

Estimated Revenue Reduction

(In Millions)

Fiscal Year	Amount
1996-97	Minor
1997-98	Minor
1998-99	Minor

DESCRIPTION

This program exempts from the property tax qualified personal property owned and used by a nonprofit veterans' organization, provided that the organization has been chartered by the U.S. Congress. To qualify, the property must be used exclusively to further the goals of the veterans' organization.

Personal property used by veterans' organizations *exclusively for charitable purposes* would be exempt under Revenue and Taxation Code Section 214. This program extends the exemption to property used to further the goals of a veterans' organization, which may not be exclusively charitable in nature.

RATIONALE

The rationale for the program is that veterans, by virtue of their military service, deserve to have their veterans' organizations receive certain publicly provided benefits.

Special Assessment:
OPEN-SPACE CONTRACTS (THE "WILLIAMSON ACT")

Program Characteristics	
Tax Type:	Real Property Tax.
Authorization:	California State Constitution, Article XIII, Section 8, and California Revenue and Taxation Code Sections 421 through 430.5.

Estimated Revenue Reduction (In Millions)	
Fiscal Year	**Amount**
1996-97	$97
1997-98	97
1998-99	97

DESCRIPTION

This program provides a partial exemption for restricted open-space lands. Owners of eligible properties must enter into a contract with the city or county in which the land is located that prohibits any development or use of the property that is not consistent with its use as farmland, open space, or wildlife habitat. These contracts run for 10 years and are automatically extended each year so that 10 years always remains on the contract, unless the property owner or the local government objects. In return for this restriction, the property is assessed in a special manner that generally reduces the amount of tax levied on it. Specifically, the assessment is based only on the income that the property can generate in its restricted use, and the assessed value is derived from this anticipated income stream using a statutory formula. The program applies to land and living improvements (such as vines and orchards), but not to other improvements (such as farmhouses and barns).

Chapter 353, Statutes of 1998 (SB 1182, Costa) provides another similar program for open space. Land owners can enter their land into 20-year contracts as farm land security zones. Under this program, property tax savings potentially could be greater than under the Williamson Act.

The annual budget act provides an appropriation to reimburse cities and counties for their approximate revenue losses associated with these contracts. The *1989-99 Budget Act* provides $36 million for these subventions in 1998-99.

RATIONALE

This program is intended to provide a tax incentive for the conservation of farmlands, open space, and wildlife habitat lands by reducing the property tax on land that is restricted for these purposes.

COMMENTS

Prior to the adoption of Article XIII A of the California Constitution (Proposition 13), properties could be reassessed annually based on their highest and best use. For example, the assessed value of a farm in an urbanizing area could be based on the land's development potential for a shopping center or housing tract. The resulting property tax burden could have increased the cost of maintaining the farming operation to the point that alternative types of development became an economic necessity.

An original argument for this program was that it removed this incentive to develop farmland and other types of open space. Under Proposition 13, however, reassessments occur only when a change in ownership or new construction takes place. In the absence of either of these events, a property's assessed value remains constant, except for an annual inflation adjustment of up to 2 percent. Consequently, for existing property owners, an increase in the development potential of their property no longer increases their taxes. Furthermore, Proposition 13 generally limits the property tax rate to 1 percent of assessed value so that, in most cases, property taxes have a small financial impact and only marginally affect decisions to buy or develop real estate. For these reasons, a property tax reduction, such as this program provides, is unlikely to change current or future decisions regarding the development or preservation of open-space lands, and the program now functions essentially as a subsidy to owners of restricted open-space lands.

The new farmland security zone program aims to increase the property tax savings available and therefore increase the incentive to preserve open space.

Exemption (Assessment):

GROWING CROPS

Program Characteristics	
Tax Type:	*Real Property Tax.*
Authorization:	*California State Constitution, Article XIII, Section 3(h), and California Revenue and Taxation Code Section 202(a)(1).*

Estimated Revenue Reduction	
(In Millions)	
Fiscal Year	***Amount***
1996-97	*$1*
1997-98	*1*
1998-99	*1*

DESCRIPTION

This program exempts from the property tax any agricultural crops growing on property on the lien date (January 1 of each year). The program does not apply to mature vineyards or orchards.

RATIONALE

This program provides tax relief to farmers by eliminating any tax liability for growing crops. In the absence of the program, such crops would be included in the value of land under Property Tax Rule 121 of the Board of Equalization. The program is rationalized on equity grounds. In the absence of the exemption, farmers with crops that mature early in the calendar year, such as asparagus, would have a higher tax liability than farmers with later-maturing crops, such as wheat or corn. This is because the crops which are more mature on the lien date (January 1 of each year) would be of higher value than crops which were less mature on that date.

COMMENTS

Harvested crops are not subject to the property tax because they are exempt as business inventory under California Revenue and Taxation Code Section 219.

Exemption (Assessment):
FRUIT TREES, NUT TREES, AND GRAPEVINES

Program Characteristics	
Tax Type:	*Real Property Tax.*
Authorization:	*California State Constitution, Article XIII, Section 3(i), and California Revenue and Taxation Code Sections 211 and 223.*

Estimated Revenue Reduction
(In Millions)

Fiscal Year	Amount
1996-97	$1
1997-98	1
1998-99	1

DESCRIPTION

This program exempts from the property tax fruit trees and nut trees for the first four years after they have been planted, and grapevines for the first three years after they have been planted. It also exempts nursery stock held by the grower from taxation as personal property, provided that the nursery stock is planted within the following year.

RATIONALE

This program provides a tax incentive for growers to plant orchards or vineyards by not levying the property tax on trees and vines until the approximate time when the trees and vines begin to bear produce.

One rationale for the program is that no income is available from orchards and vineyards to pay taxes and other carrying costs in the initial years after their planting. Under these circumstances, the planting of fruit trees, nut trees, and grapevines cannot provide the same level of cash flow and return on investment in the near term as can various alternative land uses.

Exemption (Reassessment):

DISEASED GRAPEVINES

Program Characteristics	
Tax Type:	*Real Property Tax.*
Authorization:	*California Revenue and Taxation Code Section 53.*

Estimated Revenue Reduction

(In Millions)

Fiscal Year	*Amount*
1996-97	*NA*
1997-98	*NA*
1998-99	*NA*

DESCRIPTION

This program authorizes county boards of supervisors to allow special assessments for grapevines planted to replace certain diseased grapevines. The assessed value of the diseased grapevines can be transferred to their replacements. The grapevines must have been younger than 15 years old and have been destroyed by either phylloxera or Pierce's Disease. These two diseases have been particularly damaging to California vineyards in recent years.

As noted previously, grapevines also receive an exemption from property tax assessment for the first three years after planting. As a result, this provision only affects the assessment of replacement grapevines once the three year exemption has expired.

RATIONALE

The program extends tax relief to vineyard owners already facing high costs to replace their grapevines. The rationale is that vineyard owners should not experience higher property tax payments as a result of a disease outside of their control.

Special Assessment:

RESTRICTED TIMBERLANDS

Program Characteristics	
Tax Type:	*Real Property Tax.*
Authorization:	*California State Constitution, Article XIII, Section 3(j), and California Revenue and Taxation Code Sections 434.5 and 436.*

Estimated Revenue Reduction *(In Millions)*	
Fiscal Year	***Amount***
1996-97	*NA*
1997-98	*NA*
1998-99	*NA*

DESCRIPTION

This program provides a partial property tax exemption for restricted timberlands. Restricted timberlands are assessed in a special way to reflect only the value of the land for timber production, exclusive of its development potential or aesthetic value. The Legislature has established per-acre values for various classes of timberlands. Each year, the Board of Equalization adjusts these values in proportion to the annual change in the unit prices of the different types of timber. In order to qualify for this program, land must be designated by the county as a timber production zone, which prohibits any use of the land that is not compatible with timber production. This restriction runs for 10 years, and is automatically renewed each year (resulting in a continuously rolling 10-year commitment). If either the property owner or the county wants to terminate this commitment, then the contract is not renewed in the following year, and the 10-year time period is allowed to "run down."

RATIONALE

This program provides tax relief to owners of timberlands. The program's rationale is that the reduced tax burden on lands maintained as forests reduces economic pressure for incompatible development and facilitates long-term forest management by limiting the annual ownership costs of timberlands. As a result, it is argued that these lands continue to serve public purposes by providing recreation, open space, and wildlife habitat, which merits public financial support.

COMMENTS

This program for timberlands is similar in principle to the program that limits the assessed value of lands which are under open-space contracts. As with the open-space program, the benefit of this program has diminished since the adoption of Proposition 13 in 1978, which eliminated reassessments due to property appreciation in the absence of new construction or of a sale or other transfer of the property.

Standing commercial timber (as opposed to the underlying land) is not taxed under the property tax. Instead, standing timber is subject to a separate state tax—the timber yield tax—when it is cut (California Revenue and Taxation Code Section 38115). The state allocates the revenue from the timber yield tax back to the counties in which the timber was produced.

Exemption (Administrative):

LOW HARVEST VALUE TIMBER

Program Characteristics	
Tax Type:	Timber Yield Tax.
Authorization:	California Revenue and Taxation Code Section 38116.

Estimated Revenue Reduction (In Millions)	
Fiscal Year	**Amount**
1996-97	NA
1997-98	NA
1998-99	NA

DESCRIPTION

This program authorizes the Board of Equalization (BOE) to exempt timber harvest yields of up to $3,000 in value from the timber yield tax. The BOE must determine that, if not exempted, these harvests would cost more in tax administration costs than they would provide in revenues.

RATIONALE

This exemption is intended to provide administrative savings in those cases where collecting taxes on a small timber harvest would be more costly than the amount of collected revenues.

Exemption (Assssment):

SEED POTATOES

Program Characteristics	
Tax Type:	*Personal Property Tax.*
Authorization:	*California Revenue and Taxation Code Section 234.*

Estimated Revenue Reduction

(In Millions)

Fiscal Year	*Amount*
1996-97	$1
1997-98	1
1998-99	1

DESCRIPTION

This program exempts from taxation as personal property seed potatoes which are held on the lien date (January 1 of each year) and are to be planted during the assessment year. The program does not apply to those potatoes owned by plant nurseries.

RATIONALE

This program provides tax relief to potato farmers. The rationale for the program is that seed potatoes essentially reflect business inventory that is incorporated into the potato crop and, therefore, should be exempt from taxation. This is similar to the treatment for property tax purposes of seeds, which are exempt as business inventory under Property Tax Rule 133 of the Board of Equalization (BOE). According to the BOE, this program applies to a small number of farmers in northeastern California.

Exemption (Assessment):

VESSELS

Program Characteristics	
Tax Type:	*Personal Property Tax.*
Authorization:	*California State Constitution Article XIII, Section 3(l), and California Revenue and Taxation Code Section 209.*

Estimated Revenue Reduction

(In Millions)

Fiscal Year	Amount
1996-97	NA
1997-98	NA
1998-99	NA

DESCRIPTION

This program exempts from the property tax vessels which (1) have a carrying capacity in excess of 50 tons and (2) transport freight or passengers.

RATIONALE

According to the Board of Equalization, the rationale for this program is based on tax equity grounds. In the absence of the exemption, a vessel would be taxed only if it were in port on the property tax lien date (January 1 of each year). As a result, shipping schedules would determine which vessels were taxable each year, and some vessels might pay no property tax, even though they might spend as many days per year in California ports as other vessels on which taxes would be levied.

Proponents of the program also argue that it removes a tax disincentive for maritime shippers to use California ports. This is because both Washington and Oregon have similar exemptions, and these states have ports which compete, to some extent, for business with California's ports. Thus, the program's proponents argue that, in its absence, some maritime shipping through California ports would be diverted to other northwestern ports, such as Seattle.

COMMENTS

This program was first implemented in California in 1914 and the exemption is provided for directly by the State Constitution. An alternative way to approach the tax-equity issue regarding mobile vessels would be to tax them based on the average number of days per year that they are docked in California ports. Such treatment would be analogous to the way that railroad cars and airplanes are taxed, which is based on the percentage of time that they are in the state.

Special Assessment:

DOCUMENTED VESSELS

Program Characteristics	
Tax Type:	*Personal Property Tax.*
Authorization:	*California Revenue and Taxation Code Section 227.*

Estimated Revenue Reduction	
(In Millions)	
Fiscal Year	***Amount***
1996-97	*$2*
1997-98	*3*
1998-99	*3*

DESCRIPTION

This program allows a "documented vessel" to be assessed for property taxation at 4 percent of its full cash value, provided that it is employed *exclusively* for any of the following purposes: (1) taking fish or other living resources from the sea for commercial purposes, (2) providing instruction or conducting research, or (3) transporting at least seven people as a commercial passenger fishing ship. A "documented vessel" is defined under the program as a vessel which has a valid marine document issued by the U.S. Bureau of Customs, or that is registered by the California Department of Motor Vehicles.

RATIONALE

This program provides tax relief to the owners of qualifying documented vessels. It does this by authorizing their assessment at 4 percent of value, instead of the normal 100 percent, which results in a much lower effective rate of tax on them. The rational for this program is that the economic viability of the commercial fishing industry is susceptible to significant fluctuations on a year-to-year basis, and the tax relief provided by this program helps to maintain the health of the industry. It does this by reducing annual costs to vessel owners. Implicit in this argument is the notion that maintaining the health of the commercial fishing industry is important to the state, and that the cost of this program is offset by the benefits of the increased stability of the industry.

COMMENTS

The economic viability of the California fishing industry depends on a great many different factors, including weather, the availability of fish, and various other determinants of fishing-related costs and revenues. In a prior review of this program, we concluded that the property tax exemption had only a minor impact on the viability of the fishing industry, relative to these other factors (see *The Economic and Fiscal Impacts of California's Property Tax Assessment of Sportfishing Vessels*, Legislative Analyst's Office, April 1979, Report No. 79-9).

Exemption (Assessment):

VESSELS UNDER CONSTRUCTION

Program Characteristics	
Tax Type:	*Personal Property Tax.*
Authorization:	*California Revenue and Taxation Code Section 209.5.*

Estimated Revenue Reduction (In Millions)	
Fiscal Year	***Amount***
1996-97	*NA*
1997-98	*NA*
1998-99	*NA*

DESCRIPTION

This program exempts from the property tax any vessels of at least 50 tons carrying capacity or 100 tons displacement during the time they are being constructed. The program also exempts from taxation property which will be incorporated into such vessels. The program applies only to vessels which are built by their ultimate users. Vessels which are built for resale are exempt under another provision of the law, because they are classified as "business inventory."

RATIONALE

This program provides tax relief to the shipping and shipbuilding industry. In addition, proponents argue that this program provides a tax incentive for shipping companies to undertake vessel construction projects in California ports, especially since both Washington and Oregon provide a similar tax exemption for vessels under construction. These proponents argue that, in the absence of the program, the California shipping industry, and related port activities, might be at a competitive disadvantage relative to their counterparts located elsewhere on the West Coast.

Exemption (Administrative):

VESSELS WITH A MARKET VALUE OF $400 OR LESS

Program Characteristics	
Tax Type:	*Personal Property Tax.*
Authorization:	*California Revenue and Taxation Code Section 228.*

Estimated Revenue Reduction *(In Millions)*	
Fiscal Year	***Amount***
1996-97	*NA*
1997-98	*NA*
1998-99	*NA*

DESCRIPTION

This program exempts from the property tax vessels with a market value of $400 or less. The program applies only to vessels used or held for noncommercial purposes, and does not apply to lifeboats. In addition, each property owner may have only one such vessel exempted in any given year.

RATIONALE

This program provides tax relief to owners of low-value vessels. Its underlying rationale is to simplify tax administration. The value of the qualified boats is so low that the annual tax revenues attributable to them would not offset the cost of collecting the taxes.

COMMENTS

California Revenue and Taxation Code Section 155.20 allows counties to also provide, by ordinance, a general exemption for low-valued property (defined as property not assessed at more than $5,000). In those counties having passed such an ordinance, the general exemption for low-valued property supersedes this program.

Exemption (Assessment):

AIR CARRIER GROUND TIME

Program Characteristics	
Tax Type:	Personal Property Tax.
Authorization:	California Revenue and Taxation Code Section 1152(c).

Estimated Revenue Reduction (In Millions)	
Fiscal Year	**Amount**
1996-97	NA
1997-98	NA
1998-99	NA

DESCRIPTION

This program exempts from the property tax a portion of the time during which aircraft are located in California, but are out of service. Ordinarily, the taxation of aircraft is based on the percentage of time an aircraft is physically located in the state, either on the ground or flying above it, and the proportion of its total arrivals and departures that take place in the state. However, this program permits out-of-service days to be excluded from this calculation. Specifically, for out-of-service periods exceeding 30 consecutive days, the amount of time after the first seven days is excluded.

RATIONALE

This program provides a tax incentive for airlines to have their airplanes serviced within the state. Because routine servicing can be done on airplanes at or near many different airports, including those located outside of California, it is argued that the absence of this program could cause some airlines to have these services performed elsewhere, particularly in states that do not include servicing time in determining property taxes. On the West Coast, for example, both Washington and Oregon exclude time spent within the state for servicing when computing property taxes on airplanes.

Exemption (Assessment):

AIRCRAFT BEING REPAIRED

Program Characteristics	
Tax Type:	*Personal Property Tax.*
Authorization:	*California Revenue and Taxation Code Section 220.*

Estimated Revenue Reduction

(In Millions)

Fiscal Year	Amount
1996-97	NA
1997-98	NA
1998-99	NA

DESCRIPTION

This program exempts from the property tax any aircraft which is in California on the property tax lien date (each January 1) solely for the purpose of being overhauled, modified, serviced, or repaired. Aircraft normally based in California, or which service California airports, *do not* qualify for the program.

RATIONALE

This program provides tax relief to aircraft owners who bring their craft into California to be overhauled, modified, serviced, or repaired. According to the Board of Equalization, this program effectively applies primarily to aircraft which *must* be serviced or repaired by a California manufacturer. The program is justified on the grounds that it would be inequitable to tax aircraft which ordinarily are not operated in California, and which happen to be in California on the lien date solely for servicing or modification.

Proponents of the program also argue that it provides an incentive for airlines to repair their craft in California and, as such, promotes the California aircraft repair industry. To the extent that aircraft repairs need to be made by an aircraft's manufacturer, this program also could promote California's aircraft manufacturing industry.

Exemption (Assessment):

PRIVATE RAILROAD CAR REPAIR DAYS

Program Characteristics	
Tax Type:	*Private Railroad Car Tax.*
Authorization:	*California Revenue and Taxation Code Section 11294.*

Estimated Revenue Reduction

(In Millions)

Fiscal Year	***Amount***
1996-97	*Minor*
1997-98	*Minor*
1998-99	*Minor*

DESCRIPTION

This program provides a partial property tax exemption for private railroad cars, based on the number of days such cars are in the state but are undergoing repairs. For the purposes of this program, a private railroad car is any passenger or freight car which is not owned by a railroad company. Such cars ordinarily are owned by leasing companies, or by railroad car manufacturers who lease the cars to railroad companies. The state assesses and collects the property tax on private railroad cars from the lessor in lieu of the local property tax. The revenue from this tax is deposited in the state General Fund.

The state computes the tax liability of the railroad car company by estimating the average number of each class of car physically present in the state in any year, based on the number of days railroad cars actually spend in the state. For example, if six flat cars spent 120 days each in the state, the Board of Equalization would assess the tax on the average value of two flat cars.

This program provides that the number of days spent within the state for repair purposes in any year does not count as time-in-state for purposes of the property tax assessment formula. The number of servicing days excluded from the computation cannot exceed 90 days per car per year, unless the claimant provides substantiation of the necessity of the additional days.

RATIONALE

This program provides a tax incentive for the repair and servicing of private railroad cars in California. The proponents of the program argue that, if this repair and servicing time were taxable, certain railroad cars would be taken out of the state to be serviced. It is argued that, by exempting the repair and servicing time, California's railroad car service industry is not at an economic disadvantage relative to the out-of-state service industry.

Exemption (Assessment):

CARGO CONTAINERS USED IN OCEAN COMMERCE

Program Characteristics	
Tax Type:	*Personal Property Tax.*
Authorization:	*California Revenue and Taxation Code Section 232.*

Estimated Revenue Reduction

(In Millions)

Fiscal Year	*Amount*
1996-97	*NA*
1997-98	*NA*
1998-99	*NA*

DESCRIPTION

This program exempts from the property tax qualified cargo containers principally used in transporting cargo in ocean commerce. A cargo container is defined as a specially designed receptacle which facilitates the carriage of goods by vessels and other means, and has a displacement of more than 1,000 cubic feet. This program does not apply to any cargo-carrying vehicle subject to registration under the California Motor Vehicle Code.

RATIONALE

This program provides tax relief to the owners of cargo containers, which it has been argued, gives an incentive for shippers to use California ports instead of other ports in the Pacific Northwest (such as Portland and Seattle). The program encourages the use of California ports to the extent that the exemption of cargo containers lowers the cost of using California ports relative to other ports, and to the extent that this cost savings is not offset by other factors. The actual volume of trade that would be diverted to non-California ports in the absence of this program would depend on such factors as (1) the sensitivity of shippers' demands for California port use to changes in the cost of using such facilities, and (2) the actual magnitude of the increase in such costs attributable to the property taxation of cargo containers.

COMMENTS

The economic and fiscal impacts of this program were reviewed in 1978 by our office (see *The Economic and Fiscal Impacts of California's Cargo Container Property Tax Exemption*, Legislative Analyst's Office, Report 78-5, March 1978, 35 pages). This study concluded that, while it was impossible to measure accurately the amount of trade diversion or changes in shipping rates attributable to this program, elimination of the program at that time would most likely have resulted in a positive net fiscal impact on California state and local governments.

Exemption (Assessment):

EXHIBITION EXEMPTION

Program Characteristics	
Tax Type:	*Personal Property Tax.*
Authorization:	*California Revenue and Taxation Code Section 213.*

Estimated Revenue Reduction

(In Millions)

Fiscal Year	Amount
1996-97	NA
1997-98	NA
1998-99	NA

DESCRIPTION

This program exempts from the property tax qualified personal property brought into the state temporarily for use in a public exhibit. To qualify, the property must be subject to property tax in another state or country, and any taxes due must have been paid prior to claiming the exemption in California.

RATIONALE

This program provides a tax incentive for nonresidents to exhibit property in California, such as automobiles, artwork, crafts, and other such items. In the absence of the program, such property owners would be required, in effect, to pay "double taxes" on any property being exhibited on the property tax lien date (January 1 of each year). This tax treatment might discourage nonresidents from exhibiting property of public interest within California.

Exemption (Assessment):
WORKS OF ART AVAILABLE FOR DISPLAY

Program Characteristics	
Tax Type:	*Personal Property Tax.*
Authorization:	*California Revenue and Taxation Code Section 217.*

Estimated Revenue Reduction	
(In Millions)	
Fiscal Year	***Amount***
1996-97	*NA*
1997-98	*NA*
1998-99	*NA*

DESCRIPTION

This program exempts from the property tax privately owned works of art made available for display in: (1) a publicly owned art gallery, (2) a publicly owned museum, or (3) a museum which is both regularly open to the public and operated by a nonprofit organization. To qualify, the art must have been made available for display within a certain period of time prior to the property tax lien date, and must meet certain artistic criteria. The exemption does not apply to art loaned by any person who holds works of art primarily for purposes of sale.

RATIONALE

This program provides a tax incentive for individuals to loan art works to qualified museums, by exempting such works from the property tax. The underlying rationale for the program is to promote the public display of artwork in California.

Exemption (Assessment):

WORKS OF ART OWNED BY THE ARTIST

Program Characteristics	
Tax Type:	*Personal Property Tax.*
Authorization:	*California Revenue and Taxation Code Section 986.*

Estimated Revenue Reduction (In Millions)	
Fiscal Year	**Amount**
1996-97	NA
1997-98	NA
1998-99	NA

DESCRIPTION

This program provides a special property tax valuation for qualified works of art owned by the artist who produced them. Art that is held by a person engaged in the business of selling or producing art is considered personal property and, as such, may be subject to the property tax (see below).

This program provides that the taxable value of art which is held by its creator shall equal the value of the materials used to create the artwork. Artwork may qualify for this program only if it has never been sold or exhibited.

RATIONALE

This program provides tax relief to artists by reducing the cost to them of maintaining a collection of their own artwork. The rationale for the program is that absent an actual sale of a piece of artwork, its taxable value can be difficult to determine. By valuing such artwork solely in terms of its materials, this program is intended to ease tax administration by reducing the number of appealed assessments.

COMMENTS

In the absence of this program, some artwork owned by artists potentially would be exempt either as business inventory or as personal property used as household furnishings. In addition, certain materials used to create the artwork could be exempt from taxation as business inventory.

Exemption (Assessment):
AEROSPACE MUSEUM DISPLAYS

Program Characteristics	
Tax Type:	*Personal Property Tax.*
Authorization:	*California Revenue and Taxation Code Section 217.1.*

Estimated Revenue Reduction (In Millions)	
Fiscal Year	***Amount***
1996-97	*NA*
1997-98	*NA*
1998-99	*NA*

DESCRIPTION

This program exempts from the property tax aircraft loaned or donated for display in either (1) a publicly owned aerospace museum or (2) an aerospace museum which is both regularly open to the public and operated by a nonprofit organization. The property must either have been made available for display for a period of 90 days during the 12-month period immediately prior to the property tax lien date, or the person claiming the exemption must certify in writing that the property will be made available for display for at least 90 days following the first day the property was on public display. The exemption does not apply to aircraft loaned by any person who holds aircraft primarily for purposes of sale.

RATIONALE

This program provides an incentive for aircraft owners to lend or donate specified aircraft to qualifying aerospace museums. The rationale for the program is that aircraft used for display purposes are functionally similar to works of art and, therefore, deserve comparable treatment under the property tax.

COMMENTS

This program was sponsored by the San Diego Aerospace Museum. The museum also qualifies for a sales and use tax program which exempts from taxation the transfer of certain tangible personal property to aerospace museums. According to the Board of Equalization, the San Diego Aerospace Museum is the only museum in California that currently qualifies for these programs.

Exemption (Assessment):

AIRCRAFT OF HISTORICAL SIGNIFICANCE

Program Characteristics	
Tax Type:	Personal Property Tax.
Authorization:	California Revenue and Taxation Code Section 220.5.

Estimated Revenue Reduction

(In Millions)

Fiscal Year	Amount
1996-97	$1
1997-98	1
1998-99	1

DESCRIPTION

This program exempts from taxation aircraft of historical significance. To qualify for this exemption, aircraft must be 35 years or older or be a model of which there are fewer than five in existence worldwide. In addition, aircraft must be held primarily for purposes other than sale and must be on public display at least 12 days each year.

RATIONALE

This program provides tax relief to owners of aircraft of historical significance. The underlying rationale for this program is to promote the preservation and public display of aircraft of historical significance.

Exemption (Administrative):

ASSESSMENTS OF $5,000 OR LESS

Program Characteristics	
Tax Type:	*Real and Personal Property Tax.*
Authorization:	*California State Constitution, Article XIII, Section 7, and California Revenue and Taxation Code Section 155.20.*

Estimated Revenue Reduction
(In Millions)

Fiscal Year	Amount
1996-97	NA
1997-98	NA
1998-99	NA

DESCRIPTION

This program allows county boards of supervisors to exempt from the property tax those properties on which the total net tax liability is lower than the cost of assessing and collecting the tax. Under this authority, county boards may not exempt property with an assessed value in excess of $5,000. For temporary possessory interest in convention, cultural, or fairground facilities, the exemption limit is $50,000.

RATIONALE

This program provides tax relief to the owners of low-valued property. The rationale for the program is to simplify administration of the property tax. The value of certain properties is so low that the annual tax revenues attributable to them would not offset the costs of collecting the tax. This program allows counties to forego incurring these net administrative losses.

Exemption (Administrative):

SUPPLEMENTAL ROLL TAX ASSESSMENTS OF $20 OR LESS

Program Characteristics	
Tax Type:	*Real and Personal Property Tax.*
Authorization:	*California Revenue and Taxation Code Section 75.41(d).*

Estimated Revenue Reduction

(In Millions)

Fiscal Year	*Amount*
1996-97	*NA*
1997-98	*NA*
1998-99	*NA*

DESCRIPTION

This program permits county auditors to cancel supplemental property taxes due on a property if the amount of these taxes is $20 or less.

RATIONALE

This program provides tax relief to taxpayers who transfer or construct low-valued property. The rationale for the program is to simplify administration of the supplemental property tax. The revenues generated by collecting supplemental roll assessments of $20 or less may not offset the costs of collection.

COMMENTS

Several county assessors have pointed out that most of the costs associated with supplemental property taxes involve the *assessment* rather than the *collection* of the tax. These assessors claim that, once the assessment is made, it *is* cost-effective to collect the tax. To the extent that this is the case, the above program rationale may not be valid for certain properties.

Exemption (Administrative):

FIXTURES EXCLUDED FROM THE SUPPLEMENTAL ROLL

Program Characteristics	
Tax Type:	*Real Property Tax.*
Authorization:	*California Revenue and Taxation Code Section 75.5.*

Estimated Revenue Reduction

(In Millions)

Fiscal Year	*Amount*
1996-97	*$41*
1997-98	*45*
1998-99	*49*

DESCRIPTION

This program exempts qualifying fixtures from supplemental property tax assessment. In order to qualify, the fixtures must be valued as a separate appraisal unit from the structure on the property. Fixtures are real property that originally had the character of personal property, such as equipment, but have been affixed to and incorporated into real (primarily business) property.

Prior to the exemption, the assessed value of qualifying fixtures was placed on the supplemental tax roll for the year in which it was installed. The property owner then received a supplemental tax bill for the tax on the additional assessed value, prorated to reflect the remaining portion of the tax year.

Under this program, qualifying new fixtures added to a property are exempt from supplemental assessment, so that they are not taxed until the fiscal year following the one in which they are installed. Fixtures that qualify for this program include manufacturing machinery or store fixtures, which are appraised separately from any building. The program does not include fixtures such as elevators or air conditioners which are appraised as part of a building.

RATIONALE

This program provides tax relief to businesses that add qualifying fixtures. It does so by eliminating any property tax on these fixtures during the remainder of the tax year in which they are installed. The program's rationale relates to considerations of administrative efficiency and cost-effectiveness. Counties argue that compiling information on fixture changes and determining the proper supplemental tax amounts on fixture additions and removals made throughout the year is administratively burdensome, and that the additional revenue does not justify the expense of assessing and collecting these taxes.

Exemption (Administrative):

INTERESTS THAT REPRESENT LESS THAN FIVE PERCENT OF THE PROPERTY'S TOTAL VALUE

Program Characteristics	
Tax Type:	Real Property Tax.
Authorization:	California Revenue and Taxation Code Section 65.1.

Estimated Revenue Reduction (In Millions)	
Fiscal Year	**Amount**
1996-97	NA
1997-98	NA
1998-99	NA

DESCRIPTION

This program exempts from reappraisals transfers of ownership interests in any property which represent less than 5 percent of the entire property's full market value. The qualifying transfers must have a market value of less than $10,000. When several interests are transferred in any given assessment year, they are accumulated. If the total transfer exceeds 5 percent or $10,000, then all of the transferred interests are reappraised.

Property exempted from reappraisal under this program retains the value ascribed to it prior to the transfer. To the extent that the market value of the property has increased and would otherwise be reflected in the reassessment of the property, this program reduces the tax liability on such property.

RATIONALE

This program provides property tax relief to the owners of the qualifying property. The underlying rationale for the program is to simplify administration of the property tax. The tax revenues from reassessing incremental transfers of property valued under $10,000 may not offset the county costs for assessing, billing, and collecting the taxes due.