

CALIFORNIA PROP 13

IT CHANGED THE FACE OF CALIFORNIA

The impetus for Prop 13 was the inflation-induced housing price boom of the 1970s. Investors seeking to preserve their capital poured their savings into tangible assets like real estate. With double-digit inflation also pushing up prices, many homeowners suddenly found themselves living in houses worth many times what they paid for them. But with property taxes based on assessed values, this meant that tax bills were also rising sharply. Since incomes were not rising as fast as prices or taxes, some California homeowners found that they couldn't pay the taxes and were forced to sell their homes.

Howard Jarvis and Paul Gann, leaders of two California taxpayer organizations, joined forces in 1978 to add an amendment to the state constitution. The ballot proposition limited property taxes to 1 percent of assessed value in 1975. Valuations were frozen until the property was sold. And just to make sure that other taxes were not increased to compensate, a two-thirds majority in the legislature was required to raise taxes.

Despite a massive advertising campaign against Proposition 13, voters held firm in their support and on June 6, 1978, passed Prop 13 by a two-to-one margin.

Proposition 13 made six basic changes to the California state constitution:

- 1. *One percent rate cap.*** Prop 13 capped, with limited exceptions, property tax rates at one percent of full cash value at the time of acquisition. Prior to Prop 13, local jurisdictions independently established their tax rates and the total property tax rate was the composite of the individual rates.
- 2. *Assessment rollback.*** Prop 13 rolled back property values for tax purposes to their 1975-76 level.
- 3. *Responsibility for allocating property tax transferred to the state.*** Prop 13 gave state lawmakers responsibility for allocating property tax revenues among local jurisdictions. Prior to Proposition 13, jurisdictions established their tax rates independently and their property tax revenues depended on the rate levied and the value of the property located within the jurisdiction's boundaries.
- 4. *Reassessment upon change of ownership.*** Prop 13 replaced the practice of annually reassessing property at full cash value with a system based on cost at acquisition. Under Proposition 13, property is assessed at market value for tax purposes only when it changes ownership. Increases in value are limited to an annual inflation factor of no more than two percent.
- 5. *Vote requirement for state taxes.*** Prop 13 requires any measure enacted for the purpose of increasing state revenues to be approved by a two-thirds vote of each house of the legislature.
- 6. *Voter approval for local 'special' taxes.*** Prop 13 requires taxes raised by local governments for a designated or "special" purpose to be approved by two-thirds of the voters.

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