



News & Publications

Potential California Property Tax Savings

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CCN Client Alert

Clients have been inquiring about how to take advantage of property tax reductions afforded by California Proposition 8. Proposition 8 permits a temporary reduction in the assessed value of California real property when the market value of the property has declined below the value that is reflected on the county assessor's tax rolls.

The potential savings can be significant, particularly for properties purchased recently in the years before this current real estate downturn. For example, on a property acquired in 2007 for \$30,000,000 and now worth \$23,000,000, the property tax savings in 2009 could exceed \$70,000. Tax savings continue annually until the market value of the property has recovered.

Unlike a reassessment that results from a change of ownership or from new construction, the reassessment pursuant to Proposition 8 does not lock in a new "base year value". Instead, the assessor will reexamine the market value of the property annually and will adjust the assessed value each year to its current market value until the market value equals or exceeds the "trended base year value". This "trended base year value" is the assessed value of the property ascribed as a result of the most recent reassessment due to a change of ownership or to new construction (i.e., the "base year value"), increased each year by an inflation factor, usually 2%. The tax savings for the property owner under Proposition 8 continue each year until the market value of the property exceeds its trended base year value.

For commercial property in particular, the challenge can be to establish the current market value, particularly because there have been few recent sales transactions. Although the impact of vacancies

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on cash flow may help to demonstrate a lower value of the property, the assessor may seek to apply other valuation methods that would support a higher valuation.

Each county has its own time period for applying for a Proposition 8 reduction for the current 2009-2010 tax year. Because of the large number of applications facing them, some county assessor offices may not have processed all 2009 applications before 2010. A taxpayer that is dissatisfied with the assessor's proposed value may appeal to the Appeals Board of the relevant county. The timeframe for filing these appeals is short and needs to be followed strictly.

For more information or assistance, please contact:

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