

News Brief: California Legislation

California Legislators Continue to Target Real Estate Investors, Pushing Many to Leave; and In-Turn, Boosting demand in Nevada, Utah, and other Neighboring States

Brief overview of recent California legislative actions impacting real estate owners:

COMMERCIAL

PASSED: On September 23, 2020, California Gov. Gavin Newsom extended a moratorium on commercial tenant evictions for an additional six months. The executive order, which was set to expire at the end of September, authorizes local jurisdictions to ban commercial evictions through the end of March 2021. Commercial owners are still expected to make their mortgage payments, manage operational expenses, and pay property taxes despite the moratorium on non-paying tenants.

PROPOSED: Prop. 15 – Tax on Commercial and Industrial Properties for Education. On the November 2020 ballot, **Prop. 15** would repeal Prop. 13's property tax limits for commercial and industrial properties, requiring them to be taxed based on their current market value rather than their original purchase price. Californians approved Prop. 13 in 1978, which states that residential, commercial, and industrial properties are to be taxed based on their purchase price with annual increase limits of 2.0% or the rate of inflation, whichever is lower. Residential properties would continue to be protected under Prop 13 and be taxed based on their original purchase price. Prop 15 would not apply to landlords who own a combined \$3 million or less worth of commercial real estate in California.

PERSONAL INCOME

PASSED: Prop. 30 – Temporary Taxes to Fund Education, enacted in 2012, increased marginal tax rates for high earners, defined as individuals with annual incomes over \$250k, and included a nearly 30% bump in the top marginal rate up to 13.3% (from 10.3%) for individuals with annual incomes over \$1 million. The increases were set to expire in 2018; however, in November 2016, Californians approved **Prop. 55**, which extended the tax increases for another 12 years, through 2030.

PROPOSED: Assembly Bill (AB) 1253 – Wealth Tax, as amended on August 13, 2020, would impose a 0.40 percent annual tax on a CA resident's worldwide wealth above \$30 million, based on total market value at the end of each calendar year. Part-year residents would pay a pro-rated tax based on the number of days spent in California each year. New residents would have the wealth tax phased in for them over ten years. The wealth tax proposal also includes an exit tax imposed for a period of 10 years on anyone subject to the tax who leaves the state.

PROPOSED: Assembly Bill (AB) 1253 – Personal Income Taxes:

Proposal to increase the marginal income tax rates on individuals with over \$1 million annual income. The change is expected to impact the top 0.5% of California residents who currently pay the highest state income tax rate in the country and account for 40% of California's tax revenues. The bill proposes to increase marginal income tax rates as follows:

- Increase marginal tax rate to 14.3% on income above \$1 million
- Increase marginal tax rate to 16.3% on income over \$2 million
- Increase marginal tax rate to 16.8% on income over \$5 million

RESIDENTIAL

PASSED: Assembly Bill 1482 – The Tenant Protection Act of 2019. Signed in October 2019, established statewide rent control on apartments and other multi-family properties that are over 15 years old. Annual rent increases are limited to 5.0% plus the rate of local inflation, but not to exceed 10.0%. Landlords' may reset vacant units to market rent but must conform to the annual increase limits thereafter. The bill does not override local rent control ordinances, nor does it override the Costa-Hawkins Rental Housing Act. Expires on Jan. 1, 2030, unless extended before then.

PASSED: Assembly Bill (AB) 3088 – Covid 19 Tenant Relief Act of 2020 (previously AB 1436). Signed in August 2020. Residential tenants cannot be evicted for nonpayment of rent through January 31, 2021. To be eligible for the protections, renters must fill out documents certifying they were impacted by COVID-19. Renters also must pay at least 25 percent of their rent starting in September 2020 or will lose protection from the bill. The bill does not forgive missed rent payments but Landlords will have to go through civil courts to recoup them.

PROPOSED: Prop. 21 – Local Rent Control Initiative. On the November 2020 ballot, Prop. 21 is a state-wide rent control measure that would repeal the main protections of Costa-Hawkins and allow cities and counties to enact sweeping rent control on nearly all housing that is over 15 years old. It would also allow cities and counties to limit how much rents could be increased when units turn over to new renters. Prop. 21 is nearly identical to a previous rent control proposal in 2018, Prop. 10, which was voted down.

Sources: Legislature.ca.gov; Taxfoundation.org; Ballotpedia.org;

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty, or guaranty, express or implied, may be made as to the accuracy or reliability of the information contained herein.