USA

CALIFORNIA—SPECIAL ASSESSMENT

Special assessment — Additional taxes on specific investments

DESCRIPTION

- The local government establishes an additional tax levied with the property tax to finance specific investments, within the sphere of operation of these investments, and in direct proportion to the profits that the owners will draw from them. An assessment bond to finance investments is guaranteed by the income generated from this tax. Non-payment entails the seizure and forced sale of the property.

LOCAL GOVERNMENT INVOLVED

- Municipalities and Counties

INSTITUTIONAL AND REGULATORY FRAMEWORK

- Property tax is one of the main sources of funding for US municipalities (and cadastral values are regularly updated). The adoption of "Proposal 13" in 1978 limits the levy of this tax to 1% of the value of the property, frames the increase in land values and real estate cadastral, and thereby gave a second wind to the "special assessments", Which will afterwards be considered by the courts as different as "special taxes", subject to a majority of 2/3 of the voters after the proposal 13.

TRACK RECORD OF THE USE OF THIS INSTRUMENT

- Special assessments have been used in California since the end of the nineteenth century, notably to finance irrigation projects, then urban infrastructure, until the 1930s crisis which led to a wave of unpaid payments. Proposition 13 revived them during the late 1970s as a means of financing the infrastructure needed for urban expansion, which the Municipality no longer had the means to finance from its general budget, and that the promoters did not want to be responsible for neither. Assessment bonds also had the advantage of being cheaper than bank loans (due to tax exemptions).
- However, as the extension of their investment scope remains limited and ambiguous, a new mechanism is created (Mello-Roos Act): ad hoc districts are created within which special taxes can be applied to finance investments, if 2/3 of the inhabitants or owners accept it, which could be assimilated to some extent to voluntary Neighborhood or Business Improvement District.
Sources: Misczynski (2012)

The use of this tool has evolved according to the possibilities and constraints of municipal financing. One of its main limitations is the relative and absolute assessment method of the "benefit" to be drawn by each of the taxpayers involved for the investments in question, and correlatively the limit of the area of application of the tax. This question arises even more for investments of general scope (public parks, fire brigade, major structuring artery, ...) than for those who are more localized (roads, sidewalks, networks, etc.). Another limitation is its collection via the property tax (which presupposes the existence and proper functioning of this tax), but other collection systems can be envisaged, although they can significantly increase transaction costs. This type of financing can generate considerable opposition from taxpayers, as tax collection is highly visible, and its purpose (infrastructure) may seem to fall under the scope of ordinary taxes.