

The LA City Council Approved \$150 Million of Spending for “Mansion Taxes”

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Los Angeles made headlines earlier in the year with its so-called “Mansion Tax.” Recently, the LA City Council approved spending a portion of these taxes, spreading the funds across various measures.

A Refresher on the Mansion Tax

As a refresher, the “mansion tax” is Measure ULA, which took effect on April 1, 2023. With the measure, all real estate sales for commercial or residential properties in Los Angeles above a certain amount are subjected to additional taxes. For sales above \$5 million, the tax rate is 4%. It increases to 5.5% on sales higher than \$10 million.

How Much the Mansion Tax Has Raised

As of late August, Measure ULA had raised about \$55 million.

You will notice that the LA City Council approved the use of \$150 million of funds raised by the measure. Given that only \$55 million has been raised so far, the funds will not all be allocated immediately. Instead, they will have to be allocated as they become available.

Comparing Raised Funds to Predictions

Initially, Measure ULA was predicted to raise \$900 million a year. By March, the estimate dropped to \$672 million. Unexpectedly, the luxury property market froze.

What the \$150 Million Goes Toward

To date, none of the funds raised by the mansion tax have been allocated. The announcement by the Los Angeles City Council in late August was the first time any funds from the measure were allocated.

The funds will be divided among six different programs, including:

- Short-term emergency rental assistance
- Tenant education and outreach
- Eviction defense
- Direct cash assistance for those with disabilities and low-income seniors
- Affordable housing production

- Tenant protections

Specifically, eviction defense will receive \$23 million of the funds. Another \$23 million is allocated to providing rent-burdened seniors with income support. A further \$18.4 million goes toward rent debt assistance.

Emergency rental assistance will be the first program to begin, starting September 19, 2023.

Why It Matters

Los Angeles City Councilmember Nithya Raman highlighted why this tax measure and fund allocation are so important, calling them “transformative.” According to Raman, this will be the largest consistent source of revenue for the city to use in this area.

Tenants and organizers are also pleased with the result. Community activists and tenants reiterated the need for the funding. A TRUST South L.A. civic engagement organizer, Karely De La Cruz, had important input. She is “excited” that tenants can “be legally represented in court and that landlords will not be the only ones with an attorney during an eviction.” She went on to reaffirm that “housing is a human right.”

Investors Can Use “Tenants in Common” to Avoid the Mansion Tax

While tenants and activists are happy to have the mansion tax and put the funds raised to good use, the same is not said of all investors. As is common with this type of tax, investors are in search of loopholes to avoid paying Measure ULA or minimize their payment.

One of these is tenants in common (TICs). This essentially lets co-owners of a property divide the value of the property when reporting sales and taxes, so they can avoid the minimum.

For example, if one person sells a property valued at \$12 million in LA, they would have to pay the mansion tax. But if three tenants in common own the property, each could submit a deed for \$4 million, which is below the limit of Measure ULA. Co-investors can use this to avoid paying the higher fees. This strategy may also contribute to why less funds have been raised by the measure than expected.

Conclusion

Los Angeles introduced a “mansion tax” in April. This tax applies to sales of property over a certain value. The City Council now plans to use those funds on various measures to help tenants in LA.

Sources:

<https://www.latimes.com/business/real-estate/story/2023-08-29/as-challenges-loom-l-a-city-council-approves-150-million-in-mansion-tax-spending>

<https://abc7.com/los-angeles-mansion-tax-la-housing-crisis-measure-ula-affordable/13716583/>