California State

Board *of* Equalization

Legislative Bill Analysis

Legislative and Research Division

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Senate Bill 246 (Bates)
Date: Introduced
Program: Property Taxes
Sponsor: Author
Revenue and Taxation Code Section 69.5
Effective: January 1, 2018

Summary: Allows a homeowner who received a disability-based base year value transfer before the age of 55 to receive a second base year value transfer after turning 55.

Purpose: To allow severely disabled homeowners to receive two base year value transfers.

Fiscal Impact Summary: Annual revenue loss of $5,000

Existing Law: For property tax purposes, the law requires assessors to reassess real property from its Proposition 13 protected value (called the "base year value") to its current market value whenever a change in ownership occurs.[1] However, subject to many conditions, the law allows two categories of homeowners to sell their existing home, buy or build a new one, and "transfer" their base year value to the new home.[2] The first category is age-based: homeowners 55 years and older. The second category is disability-based: severely disabled homeowners. This benefit gives these homeowners property tax relief by allowing property taxes to remain essentially the same[3] after their move, provided they purchase a home of equal or lesser value that is located in the same county.[4]

Generally, the law limits a homeowner to one base year value transfer.[5] But the law permits a second transfer if homeowners over 55 use their one time transfer but subsequently become disabled, requiring another move. The law does not allow a second transfer in the reverse scenario. That is, a homeowner who receives a transfer before the age of 55 on the basis of disability is ineligible for a future transfer on the basis of age.

Proposed Law: This bill allows a homeowner who received a disability-based base year value transfer before the age of 55 to receive a second transfer after they reach the age of 55.

In General: **Property Tax System.** In 1978, voters approved Proposition 13. Under this system, property is reassessed to its current market value only after a change in ownership or new construction. Generally, a property's sales price sets the property's assessed value, and annual increases thereafter are limited to the rate of inflation up to 2%.

Base Year Values. At the time of the ownership change, the value for property tax purposes is redetermined based on current market value. This established value is described as the "base year value." Thereafter, the base year value is subject to annual increases for inflation limited to 2% per year. This value is described as the "factored base year value." The Proposition 13 system can result in substantial property tax savings for long-term property owners.

Base Year Value Transfers. Voters have approved three constitutional amendments permitting persons to transfer their Proposition 13 base year value from one home to another that is of equal or lesser value. The base year value transfer avoids reassessment of the newly purchased home to its fair market value.

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[1] California Constitution Article XIII A, Sec. 2.
[2] California Constitution Article XIII A, Sec. 2 (a), Revenue and Taxation Code (RTC) Section 69.5.
[3] The property tax payment will not be exactly the same because the precise tax rate and direct levies (special assessments, parcel taxes, etc.) typically vary by location.
[4] In addition, eleven counties offer this property tax benefit to new county residents. Each county has the discretion to accept intercounty transfers. Counties with active enabling ordinances include: Alameda, El Dorado, Los Angeles, Orange, Riverside, San Bernardino, San Diego, San Mateo, Santa Clara, Tuolumne and Ventura.
[5] RTC Section 69.5(b)(7).

- **Intracounty.** In 1986, Proposition 60[6] amended the constitution to allow persons over the age of 55 to sell a principal residence and transfer its base year value to a replacement principal residence within the same county.
- **Intercounty.** In 1988, Proposition 90[7] amended the constitution to extend these provisions to a replacement residence located in another county on a county-optional basis. Currently, eleven counties accept transfers from homes located in another county.
- **Disabled Persons**. In 1990, Proposition 110[8] amended the constitution to extend these provisions to any severely and permanently disabled person regardless of age.

RTC Section 69.5 implements all three propositions.

Statewide Tracking Database. To monitor and enforce the base year value transfer limitations statewide, the law[9] requires the Board of Equalization (BOE) to maintain a database to track persons granted a base year value transfer.

As of January 2017, the following number of base year value transfers have been granted to homeowners:

- **Proposition 60 (Intracounty):** 160,886
- **Proposition 90 (Intercounty):** 66,218
  - **Age-Based Transfers:** **227,104**
- **Proposition 110**:
  - **Disability-Based Transfers** **2,018**

To provide a frame of reference, currently 5.1 million homeowners claim the homeowners' property tax exemption on their property tax assessment.

Legislative Background: In 1996, SB 1692 (Petris) was enacted to allow a person who has received a base year value on the basis of age to receive a second transfer if they subsequently become severely and permanently disabled. Prior to this legislation only one transfer in a lifetime was allowed, irrespective of whether transfer eligibility was age-based or disability-based.

Commentary:

1. **Effect of the bill.** This bill allows disabled homeowners to keep their Proposition 13 tax savings if they move a second time after reaching the age of 55.
2. **Transfer limits.** Current law bars a person who received a disability-based base year value transfer before the age of 55 from receiving a second transfer after turning 55.
3. **The transfer limit is a statutory limitation.** The constitutional provision that allows base year value transfers does not limit the number of transfers a person may receive. The Legislature imposed the one time limit and accordingly may modify it, as it did in 1996 with SB 1692.
4. **The two transfer exception**. Since 1996, the law allows a person to receive two base year value transfers, but only in the following order:
   - First Transfer: Age (Proposition 60 or 90)
   - Second Transfer: Subsequent disability (Proposition 110)

[6] Proposition 60, approved November 4, 1986.
[7] Proposition 90, approved November 8, 1988.
[8] Proposition 110, approved June 5, 1990.
[9] RTC Section 69.5(b)(7).

5. **This bill allows two transfers in the reverse scenario.** This bill would allow a person to receive two base year values in the reverse order:
   - First Transfer: Disability (Proposition 110)
   - Second Transfer: Age (Proposition 60 or 90)

Costs: If enacted, the BOE would incur minor absorbable costs to modify the BOE tracking database, update publications and the website, and address ongoing implementation issues that will result from these new provisions.

Revenue Impact: **Background, Methodology, and Assumptions.** BOE property tax statistics indicate that about 75 disability-based transfers are granted per year. During the 27 years that disability-based transfers have been available, approximately 2000 disabled persons have been granted base year value transfers statewide. We have no data available regarding the number of disabled persons granted transfers that would seek to move again after reaching the age of 55. However, given the relative lack of contact from the public and assessors about this issue, and the limited population of people potentially impacted (2000), we anticipate the additional transfers per year will be few in number. Staff assumes there will be four additional claims granted annually. Four claims represent about 5% of the annual number of disability-based claims filed. The number of additional claims that will be filed is an assumption, as data is unavailable.

According to the California Association of Realtors, the median home price in January 2017 was $490,000. The fiscal year 2016-17 average assessed value of a property receiving the homeowners' exemption was about $372,000. Therefore, the estimated amount of assessed value difference per home transferred is about $118,000 ($490,000 - $372,000).

The total revenue loss is computed by multiplying the estimated number of qualified transfers by the assessed value difference at the basic 1% property tax rate:

4 qualified transfers x $118,000 x 1% = $4,720

Revenue Summary. This bill would reduce property tax revenues at the basic 1% tax rate by about $5,000 annually.

Qualifying remarks. Generally, for a claimant to be eligible for the property tax relief described, a previous transfer of the original property (i.e. a change in ownership subjecting the original property to reappraisal at its current fair market value) must have occurred. In addition, the revenue impact may be greater to the extent that market values return to previous peak levels.

This revenue estimate does not account for any changes in economic activity that may or may not result from enactment of the proposed law.