DRAFT

STATE BOARD OF EQUALIZATION
STAFF LEGISLATIVE BILL ANALYSIS

Date:	**03/21/13**	Bill No:	**Assembly Bill 1172**
Tax Program:	**Property**	Author:	**Bocanegra**
Sponsor:	**Author**	Code Sections:	**RTC 69.5**
Related Bills:		Effective Date:	**Upon Voter Approval**

BILL SUMMARY

Subject to voter approval, allows homeowners 65 years and older to transfer the base year value of their home to anywhere in California.

ANALYSIS

CURRENT LAW

For property tax purposes, real property is reassessed from its Proposition 13 protected value (called a "base year value") to its current market value whenever there is a change in ownership[1]. Subject to many conditions, existing law[2] allows homeowners 55 years and older to transfer their home's base year value to another home of equal or lesser value purchased[3] in the same county. In addition, eight counties have adopted an ordinance offering this property tax benefit to new county residents. The eight counties allowing "intercounty" base year value transfers include: Alameda, El Dorado, Los Angeles, Orange, San Diego, San Mateo, Santa Clara, and Ventura.

Existing law gives county boards of supervisors the option of offering intercounty base year value transfers. Before enacting the necessary ordinance, the board of supervisors must consult with local affected agencies within the county.

PROPOSED LAW

This bill requires counties to grant base year value transfers to home buyers from another county who are 65 years or older, providing all other conditions are met. For home buyers between the ages of 55 and 64 years, intercounty transfers remain county optional. Thus, subject to the other qualifying conditions and limitations, homeowners 65 years and older would be able to move anywhere in California and pay the same ad valorem property tax as they pay on their existing home. Other taxes collected via the annual property tax bill, such as special assessments and fees, could be higher or lower depending on the locale.

To become operative, voters must approve a constitutional amendment. The proposed law would apply to homes purchased on or after January 1, 2014.

IN GENERAL

Property Tax System. In 1978, voters changed California's property tax system with the approval of Proposition 13. Under Proposition 13, property is reassessed to its current market value only after a change in ownership. Generally, the sales price of a property is used to set the property's assessed value and annual increases to that value are limited to the rate of inflation, not to exceed 2%.

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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 Section 69.5
[3] The law also allows transfers to a home that is built (i.e., newly constructed).

Base Year Values. At the time of the ownership change, the value for property tax purposes is redetermined based on current market value. The initially established value is described as the "base year value." Thereafter, the base year value is subject to annual increases for inflation, but at no more than 2% per year. This value is described as the "factored base year value." This system, established by Proposition 13, results 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.

- **Intracounty.** Proposition 60, approved November 4, 1986, amended Section 2 of Article XIII A of the California 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.** Proposition 90, approved November 8, 1988, extended these provisions to a replacement residence located in another county on a county - optional basis. Currently eight counties accept transfers from outside their county.
- **Disabled Persons**. Proposition 110, approved June 5, 1990, extended these provisions to any severely and permanently disabled person.

RTC Section 69.5 statutorily implements these propositions.

BACKGROUND

In 2010, SCA 31 and SB 1415 (Waters) proposed identical provisions. These measures were never heard.

In 1997, ACA 39 and AB 1960 (Takasugi) proposed mandatory statewide acceptance of intercounty transfers without a higher age threshold. Both bills were held in the Assembly Appropriations Committee.

COMMENTS

1. **Sponsor and purpose.** The author is sponsoring this bill to allow senior citizens the ability to move to different parts of the state to better meet their needs without fear of a large property tax increase. The author notes that California's Proposition 13 provided property owners with strong protections from higher property tax rates, rapid inflation, and frequent assessments. However, Proposition 13 also provided taxpayers with a strong incentive to remain in their current home to avoid losing their base year value. Although Propositions 60 and 90 provided certain senior homeowners with the ability to move within a county, it does not always allow a senior homeowner to move between counties. According to the author, these location restrictions penalize senior citizens who sell their homes to be closer to family or downsize to better meet their needs.

2. **Base year value transfers extend Proposition 13 protections.** Base year value transfers allow eligible homeowners to preserve their home's Proposition 13 protected value when they move. Transferring the base year value means property taxes will not increase. For example, if a senior with a $100,000 base year value sells her $400,000 home to buy a $350,000 home, the property taxes will remain based on $100,000 rather than $350,000. To qualify, the former home's sale must

trigger its reassessment to current market value. In this example, the former home's assessed value increases from $100,000 to $400,000.

3. **Some seniors feel trapped by the potential for a tax increase.** Homeowners that either need or want to relocate to a county that does *not* allow for intercounty transfers are often disappointed that they cannot get a base year value transfer in that county. When property tax implications are factored into their decision, some homeowners decide not to move or move within the county.
4. **The location restrictions are limited to those 65 years and older**. This bill allows homeowners 65 years and older to move anywhere in California and keep their Proposition 13 base year value if they otherwise qualify. Those between the ages of 55 and 64 would be limited to the county in which they currently reside or those counties that have elected to enact an ordinance accepting base year value transfers.
5. **Only eight counties have ordinances to allow intercounty transfers.** While other counties previously had enacted ordinances, the ordinances have been repealed or have expired. Only the following counties have ordinances allowing intercounty transfers: Alameda, El Dorado, Los Angeles, Orange, San Diego, San Mateo, Santa Clara, and Ventura.
6. **This bill eliminates local control.** Previously, counties have been able to decide whether they want to participate in the program after considering the property tax loss the county might experience.
7. **Voters must first approve the change.** These provisions will not be effective unless voters approve a constitutional amendment.
8. **The provisions are only prospective.** These provisions apply to purchases or construction completed on or after January 1, 2014. Homeowners who purchase or complete construction of a home before that date will not be eligible to have their property tax assessment reduced. However, there is an exception for homeowners that have not yet sold their first home. Those homeowners who purchase before January 1, 2014 can qualify if they do not sell their original home until on or after January 1, 2014.

COST ESTIMATE

The BOE's administrative costs would be absorbable.

REVENUE ESTIMATE

BACKGROUND, METHODOLOGY, AND ASSUMPTIONS

This bill allows those over the age of 65 to transfer their base year value to any California county, regardless of an ordinance authorizing transfer. Three factors are needed to make a reasonable revenue impact estimate: assessed value difference, number of additional claims, and percentage increase in claims.

First, we estimate the average value of each additional base year value transfer granted. The December 2012 California median home sale price was $367,000. The average assessed value of properties receiving the homeowners' exemption for 2011-12 was $300,000. Therefore, the estimated assessed value difference per home for qualified base year value transfers under this bill is $67,000 ($367,000 - $300,000).

This value represents the average difference between the full cash value of the original dwelling and its base year value.

Next, in order to estimate the additional transfers that might be granted, we need to determine the number of transfers occurring currently. According to the BOE's Report on Budgets, Workloads, and Assessment Activities for 2010-11, approximately 2,400 claims were granted for senior citizen base year value transfers in California. Based on U.S. Census Bureau population statistics for California, we estimate that 1,200, or half, were for claimants 65 and over.

Finally, we must estimate the number of additional base year value transfer claims. This bill's revenue impact depends on the growth of the current tax relief program among those 65 years and older that move to another county. While we cannot predict that behavior, we can provide impact ranges. Depending on the claim growth percentage, the revenue impact is as follows:

2010-11 Estimated # of Claims Granted for 65+	Claim Growth Rate	# of Addt'l Grants	Estimated Affected AV	Revenue Impact @ 1% Basic Rate
1,200	5%	60	$67,000	$40,200
1,200	10%	120	$67,000	$80,400
1,200	20%	240	$67,000	$160,800
1,200	50%	600	$67,000	$402,000
1,200	100%	1,200	$67,000	$804,000
1,200	200%	2,400	$67,000	$1,608,000
1,200	500%	6,000	$67,000	$4,020,000

REVENUE SUMMARY

The estimated annual revenue loss is between $40,000 and $4 million.

This revenue estimate does not account for any change in property tax revenue that will occur as a result of the reassessment of the original dwelling. Additionally, it does not account for any economic activity that may or may not result from enactment of the proposed law.

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