STATE BOARD OF EQUALIZATION
STAFF LEGISLATIVE BILL ANALYSIS

Date Introduced:	**01/25/05**	Bill No:	**AB 185**
Tax:	**Property**	Author:	**Plescia**
		Related Bills:	

BILL SUMMARY

This bill would increase the amount of the homeowners' exemption from $7,000 to $15,000 for persons age 62 years or older.

ANALYSIS

Current Law

Article XIII, Section 3(k) of the California Constitution exempts the first $7,000 of assessed value of an owner-occupied principal place of residence and Section 25 requires that the state reimburse local government for the resulting property tax revenue loss. This exemption is commonly referred to as the "homeowners' exemption."

The Constitution provides that the Legislature may increase the amount of the homeowners' exemption above $7,000, provided that:

- local governments are reimbursed for the property tax revenue loss; and,
- benefits to renters, currently granted via the renters' income tax credit, are increased by a comparable amount.

Section 218 of the Revenue and Taxation Code specifies eligibility for the exemption and sets the exemption in the amount of $7,000 of full cash value.

Proposed Law

This bill would amend Section 218 of the Revenue and Taxation Code to increase the amount of the homeowners' exemption to $15,000 for persons who are age 62 years or older. It also makes corresponding amendments to Section 275, which allows a partial exemption for late-filed claims.

This bill would also state the intent of the Legislature to provide a comparable benefit to qualified renters age 62 years or older.

Background

Many property tax reform proposals were advocated in the 1960's and 1970's because the law at that time required property to be reassessed to current market value levels on a cyclical basis. These periodic reassessments resulted in substantial property tax increases due to rapidly escalating real estate values similar to the current state of California's residential real estate market. Consequently to provide some measure of property tax relief, the homeowners' exemption was created in 1968 via a constitutional amendment. (Proposition 1-A; SCA 1 and SB 8, Stats. 1968). The exemption was equivalent to $3,000 of full cash value.[1] Then in 1972, legislation was passed to increase the amount of the exemption commencing in 1974 to its current equivalent level of $7,000 of full cash value.[2] (SB 90, Stats.1972)

Numerous bills were introduced in the Legislature between 1972 and 1978 to further increase the amount of the exemption. Apparently, these bills were rejected, in part, because some viewed the creation of the homeowners' exemption as a temporary means of providing property tax relief, the benefits of which would erode over time due to inflation. Some argued that instead, a fundamental change to the property tax system was needed to contain rapidly increasing property taxes.

Ultimately, the tax reform proposal adopted was Proposition 13 (Article XIIIA of the California Constitution). Approved by the voters in November 1978, it rolled back real property values to 1975 market value levels and limited annual increases in assessed values thereafter to the rate of inflation, not to exceed 2% for so long as the property remains under the same ownership. Proposition 13 also limited the tax rate to 1% of the full cash value of the property. Previously, each taxing agency could determine and levy its own rate and the statewide average tax rate at that time was 2.67%.

Under Proposition 13, property is reassessed to its current market value only after a change in ownership. The current market value for homes is generally the sales price, and, once again, annual increases to that value are limited to the rate of inflation, not to exceed 2%. Thus, Proposition 13 established a new assessment value standard that requires property to be assessed based upon its market value at the time it is acquired by the taxpayer, rather than its value in the current real estate market. For property owners, especially homeowners, the primary benefits of this assessment value standard is that future property tax liability is determinable and annual increases are modest.

Related Bills. Since the enactment of Proposition 13, numerous bills have been introduced in the Legislature to increase the amount of the homeowners' exemption. The proposals have used various methods including:

- increasing the exemption by a flat amount
- varying the exemption according to the year of purchase
- indexing the exemption for inflation
- increasing the exemption for certain classes of persons

In 2002, the initiative process was used for the first time in an attempt to increase the amount of the exemption and the renters credit via a direct vote of the people, but enough signatures were not obtained to place the measure on the ballot.

Previous measures to increase the homeowners' exemption are summarized in the following table. Those related to persons over the age of 62 are highlighted.

[1] The actual amount was $750 of assessed value; however, at that time, property was assessed at 25%, rather than 100%, of value.
[2] The actual amount was $1,750 of assessed value.

Bill Number	Legislative Session	Author	Type
AB 2357	**2003-04**	**Plescia**	**Increase to $10,000 for over 62**
AB 211	**2003-04**	**Maze**	**Increase to $17,000 for over 62, disabled, blind**
AB 82	2003-04	Dutton	Increase to $32,000, plus index for inflation
Initiative	Signature drive ended 11/6/02 – Not Pursued	Howard-Jarvis Taxpayers Assoc. & Bill Simon	Increase to $32,000, plus index for inflation
AB 1844	**2001-2002**	**Mountjoy**	**Increase to $17,000 for over 62, disabled, blind**
SB 48	2001-2002	McClintock	Index for inflation by California CPI
SB 48	2001-2002	McClintock	Increase to $25,000, plus index for inflation
AB 218	2000-2001	Dutra	Increase for 1st time homebuyers
AB 2288	1999-2000	Dutra	Increase for 1st time homebuyers
AB 2158	**1999-2000**	**Strickland**	**Increase to $8,750 for persons over 62**
SCA 8	1999-2000	Johannessen	Increase to $20,000; delete renter's credit parity
AB 2060	1997-1998	Granlund	Increase to $20,000
ACA 43	1997-1998	Granlund	Increase to $20,000
ACA 5	1991-1992	Elder	Variable, according to assessed value
ACA 31	1991-1992	Frizzelle	Index for inflation by California CPI
ACA 47	1991-1992	Jones	25% exemption; no assessed value cap
ACA 3	1989-1990	Elder	Variable, depending on year acquired
ACA 9	1989-1990	D. Brown	25% exemption; $250,000 assessed value cap
ACA 31	1989-1990	Hannigan	15% exemption; $150,000 assessed value cap
ACA 55	1989-1990	Wright	Increase to $48,000
ACA 1	1987-1988	Elder	Increased to $25,000, plus index for inflation
ACA 25	1987-1988	D. Brown	25% exemption; $250,000 assessed value cap
AB 2141	1985-1986	Klehs	20% exemption; $50,000 exemption cap
AB 2496	1985-1986	Cortese	Increase in years with General Fund Reserves
AB 3086	1985-1986	Elder	Variable, depending on year acquired
AB 3982	1985-1986	La Follette	Increase for 1st time home buyers
ACA 49	1985-1986	Elder	Variable, depending on year acquired

COMMENTS

1. **Sponsor and Purpose.** The author is sponsoring this measure to provide some financial relief to seniors.

2. **Exemption Amount Unchanged Since the Enactment of Proposition 13.** The homeowners' exemption was enacted in 1968 and increased to its current level in 1974. Despite many attempts, the amount of the exemption has not increased in more than 28 years. Arguments against increasing the homeowners' exemption generally focus on the point that Proposition 13 has provided sufficient property tax relief and controls. Opponents of an increase have also expressed concern about the fiscal impact of funding both homeowners' exemption and the renters' credit.

3. **The Constitution Specifies the Minimum Amount of the Exemption.** The $7,000 amount specified in the Constitution is the *minimum* amount of the exemption. The Constitution provides that the homeowners' exemption can be statutorily increased, as long as there is an equivalent increase in the amount of the renters' credit and local governments are reimbursed for the property tax revenue loss.

This staff analysis is provided to address various administrative, cost, revenue and policy issues; it is not to be construed to reflect or suggest the Board's formal position.

4. **Two Programs Currently Provide Persons age 62 or Older, or Blind or Disabled with Property Tax Relief and/or Assistance.** Both of the following programs have income restrictions limiting participation:

   - The **Property Tax Postponement Program,** administered by the State Controller, www.sco.ca.gov, permits persons to delay all or part of their property taxes until after their deaths. For most taxpayers, total household income can not exceed $24,000 to participate in this program.

   - The **Property Tax Assistance Program**, administered by the Franchise Tax Board, www.ftb.ca.gov, rebates 4% to 96% of property taxes paid. The percentage rebated is determined according to a sliding income scale. The rebate ranges from $19.72 to a maximum of $473. For the 2004 claim year, persons must have had a total household income of $38,505 or less to qualify. A similar program, the Renter Assistance Program makes payments to renters based on part of the property taxes that they paid indirectly when they paid their rent.

5. **Other Property Tax Benefits Provided to Seniors.** In addition to the above programs, persons over the age of 55 are permitted to transfer their Proposition 13 assessment if they purchase a new home of equal or lesser value that is located in the same county. (Additionally, seven counties permit persons to transfer values from homes located in other counties.)[3] This once-in-a-lifetime benefit allows seniors to pay the same level of taxes if they choose to move and continue to enjoy relatively low property taxes by avoiding the reassessment provisions of Proposition 13 when purchasing a qualifying new home.

6. **Senior Homeowners Will Need to Take Action to Receive the Higher Exemption Amount.** This bill would likely require a mass refiling by seniors eligible to claim the higher exemption amount since homeowners' exemption claim forms do not indicate the age of the homeowner and the assessors' offices do not maintain any information as to a homeowner's age. Currently, persons file a claim for the homeowners' exemption only once. Those persons eligible for the $15,000 exemption will need to refile with their county assessor's office and provide any necessary documentation for eligibility. Additionally, as other persons reach the age of 62, they also would need to modify their claims with their county assessor's office to receive the proposed higher exemption amount.

7. **The State Subvenes Property Tax Revenue Loss from the Homeowners' Exemption.** The homeowners' exemption is the only property tax exemption for which the state fully reimburses local governments. The state also makes subvention payments to offset property tax reductions for open space and agricultural property that receives preferential assessment treatment under the Williamson Act at the rate of $1 per acre for non-prime land and $5 per acre for prime land.

8. **Suggested Amendment.** For clarity for taxpayers and administrators it would be preferable to clearly state that the age of a person on the lien date (January 1)

[3] Alameda, Los Angeles, Orange, San Diego, San Mateo, Santa Clara, and Ventura

determines the exemption amount provided for the upcoming fiscal year, which runs from the following July 1 to June 30.

(2) For any assessment year beginning on or after January 1, 2005, if the assessee for a dwelling <u>that is eligible for the homeowners' property tax exemption </u>is age 62 years or older<u> on or before the lien date</u>, the exemption is in the amount of fifteen thousand dollars ($15,000) of the full value of the dwelling.

COST ESTIMATE

With respect to property taxes, the Board would incur insignificant costs in informing and advising local county assessors, the public, and staff of the law changes. These costs are estimated to be under $10,000. If the BOE is required to modify its homeowners' exemption tracking system in order to separately track those persons qualifying for the senior's exemption, then additional costs may be incurred.

The revenue estimate below does not address the renters' tax credit provisions of this bill which are administered by the Franchise Tax Board

REVENUE ESTIMATE

Existing property tax law provides for homeowners' exemption in the amount of $7,000 of the full value of a "dwelling," as specified. The state is required to pay subventions to counties for the homeowners' exemptions to offset the resulting local property tax loss. The state reimbursement to the counties for 2003-04 totaled $424,786,000 on 5.4 million claims.

The total exempt value on these properties was $37,958,702,000. Therefore, the average tax rate for properties receiving the homeowners' exemption is:

$424,786,000 / $37,958,702,000, or 1.119%.

Under this bill, the homeowners' exemption for claimants who are 62 years of age or older would increase by $8,000, from $7,000 to $15,000 for a full exemption. The average increase in the reimbursement to counties, for claimants age 62 years and older, is computed as follows:

$8,000 x 1.119%, or $89.52.

Based on information from the 2000 U.S. Census, staff estimates that there are 1.6 million claimants age 62 and older claiming the homeowners' exemption. The estimated increase in the homeowners' exemption reimbursement is then:

1.6 million x $89.52 = $143.2 million

Revenue Summary

This staff analysis is provided to address various administrative, cost, revenue and policy issues; it is not to be construed to reflect or suggest the Board's formal position.

This bill would increase the state reimbursement for the homeowners' exemption approximately $143.2 million annually. This amount will grow over time as the number of qualified claimants increases due to the aging population.

Qualifying Remarks

This bill would result in decreased state expenditures for current tax relief available to seniors in the form of the Senior Citizens Property Tax Assistance program, $39,062,000 in 2003-04, and the Senior Citizens Property Tax Deferral program, $11,714,000 in 2003-04. These amounts would be partially offset by the increased amount of the reimbursement to local governments for the homeowners' exemption.

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