STATE BOARD OF EQUALIZATION
STAFF LEGISLATIVE BILL ANALYSIS

DRAFT

Date Amended:	**As proposed to be amended.**	Bill No:	**AB 1922**
Tax:	**Property**	Author:	**Walters**
Related Bills:	**AB 2738 (Wyland)**		

BILL SUMMARY

As proposed to be amended this bill would, among other things, change the amount of the homeowners' property tax exemption from $7,000 to 25% of a dwelling's assessed value, with a guaranteed minimum exemption amount of $7,000.

ANALYSIS

Current Law

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

Existing law, pursuant to Section 3 of Article XIII, authorizes the Legislature to increase the amount of the homeowners' exemption if:

- local governments are reimbursed for the revenue loss; and,
- benefits to renters, currently provided 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 at $7,000.

Proposed Law

This bill would amend Section 218 of the Revenue and Taxation Code to increase the amount of the homeowners' exemption to 25% of a home's assessed value.

In addition, it would annually adjust the income tax credit provided to renters as specified. The renter's credit is administered by the Franchise Tax Board and is not discussed in detail in this analysis. Additionally, the associated revenue impact of this provision is not reflected in the Board of Equalization's revenue estimate.

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.

Background

Prior to the enactment of Proposition 13 in 1978, various property tax reform proposals were advocated in the 1960's and 1970's because at that time property taxes were based on a property's actual market value. Consequently, property was reassessed to its current market value on a cyclical basis and these periodic reassessments resulted in substantial property tax increases due to rapidly escalating real estate values similar to the real estate market in recent years. To provide some measure of property tax relief to homeowners, 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[1] of assessed value. In 1972, legislation was passed to increase the exemption to its current equivalent level of $7,000 beginning in 1974.[2] (SB 90, Stats.1972)

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

Ultimately, the property 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 future annual increases in assessed values to the rate of inflation, not to exceed 2%, as long as the property remained under the same ownership. Proposition 13 also limits the basic property tax rate to 1%. Previously, each taxing agency could determine and levy its own rate and the statewide average tax rate was about 2.67%.

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%. Thus, Proposition 13 established a new assessment value standard that requires property to be assessed based upon the market value of the property at the time it is acquired by the taxpayer, rather than the value it has in the current real estate market. For property owners, especially homeowners, the primary benefits of this system are that future property tax liability is determinable and annual increases are modest.

Related Bills. Since Proposition 13, numerous bills have proposed increasing the exemption as summarized below. A variety of methods have been considered including:

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

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[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.

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

Bill	Year	Author	Proposal
AB 2738	2006-07	Wyland	Increase to $27,000 for over 62
AB 62	2005-06	Strickland	Increase to 25% for 1st time homebuyers
AB 185	2005-06	Plescia	Increase to $10,000 for over 62
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 or 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, or 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 property tax relief to homeowners.

2. **Proposed Amendments.** The proposed amendments would provide that the exemption would be based on 25% of the property's assessed value rather than "25% of the purchase price" to resolve numerous implementation issues that would otherwise result. In addition, the proposed amendments would establish an exemption amount of no less than $7,000 to ensure that properties currently receiving the homeowners' exemption, but have an assessed value of less than $28,000, would not have their exemption amount reduced as a result of this bill.

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.

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 exemption may be statutorily increased, as long as there is an equivalent increase in the amount of the renters' credit and local governments are reimbursed for property tax revenue losses. This bill would not necessarily increase the amount of the renters' credit by an equivalent amount but it does provide an annual increase for inflation. Section 25 of Article XIII already requires the state to reimburse local government for any property tax revenue loss associated with the homeowners' exemption.

4. **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 numerous attempts, the exemption has not been increased in more than 30 years. Arguments against increasing the exemption generally follow the line of reasoning that California property tax law, via Proposition 13, provides sufficient property tax relief and protections for homeowners. Opponents of increasing the exemption have also expressed concern over the fiscal impact of increasing the exemption since the state would be required to fully reimburse local governments for the revenue loss as well as provide a comparable increase in benefits to renters via the renters' state income tax credit.

5. **There is No Maximum Cap to Amount of the Exemption.** The amount of the exemption would vary according to the assessed value of a home. Similar bills in prior legislative sessions included an assessed value cap to establish an upper limit to the amount of the exemption provided to a taxpayer.

6. **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.

7. **Chaptering Out Potential**. AB 2738 (Wyland) would increase the homeowners' exemption for persons over the age of 62 to $27,000. In addition, AB 1798 (Berg), AB 2735 (Nava), AB 3039 (Houston), and SB 1607 (Machado), related to specified disasters, also propose to amend Section 218.

COST ESTIMATE

The homeowners' exemption is administered at the local level and as such counties would incur costs to modify their systems to reflect a variable homeowners' exemption. The Board would incur some minor absorbable costs in informing and advising county assessors, public and staff of the law changes and addressing ongoing implementation issues and questions.

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REVENUE ESTIMATE

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

Background, Methodology, and Assumptions

Existing property tax law provides for a 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 2004-05 totaled $431,065,000 on 5.4 million claims.

The total exempt value on these properties was $37,957,506,000. Therefore, the average tax rate for properties receiving the homeowners' exemption is:

$431,065,000 / $37,957,506,000, or 1.136%.

For 2004-05, the average assessed value of parcels receiving the homeowners' exemption is $234,151. Therefore, under this bill, the average homeowners' exemption is:

$234,151 x 25%, or about $58,500

The homeowners' exemption would increase on average by $51,500, from $7,000 to $58,500 for a full exemption. The average increase in the reimbursement is computed as follows:

$51,500 x 1.136%, or $585.04.

The estimated increase in the homeowners' exemption reimbursement is then:

5.4 million x $585.04 = $3.2 billion

Revenue Summary

This bill would increase the state reimbursement for the homeowners' exemption approximately $3.2 billion annually.

Qualifying Remarks

This amount will grow over time as the assessed value of parcels receiving the homeowners' exemption increases. From 1990 to 2000, statewide assessed values increased 6.2% each year on average, while the average assessed value for a parcel receiving the homeowners' exemption increased 4.5% per year. Since 2000, statewide assessed values have increased 8.9% each year on average, while the average assessed value for a parcel receiving the homeowners' exemption has increased 7.8% per year.

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This exemption includes a $7,000 floor. Therefore, no adjustment is made for any parcel with an assessed value below $28,000.

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