



STATE BOARD OF EQUALIZATION

STAFF LEGISLATIVE ENROLLED BILL ANALYSIS

Date Amended:	Enrolled	Bill No:	AB 2853
Tax:	Property	Author:	Laird
Related Bills:	SB 1102 (Ch. 227, 2004)		

BILL SUMMARY

This bill would make optional county reporting of parent-child change in ownership exclusions to the Board for purposes of monitoring the \$1 million benefit limit, but encourages counties to continue to report transfers.

Current Law

Under existing property tax law, real property is reassessed to its current fair market value whenever there is a "change in ownership." (*Article XIII A, Sec. 2; Revenue and Taxation Code Sections 60 - 69.7*)

Proposition 58, which was passed by the voters of California on November 4, 1986, added subdivision (h) to section 2 of article XIII A of the California Constitution, and provides, in part, that the term "change in ownership" shall not include the purchase or transfer between parents and their children of a principal residence, or the first \$1 million of the full cash value of all other real property. Proposition 193 on the March 1996 ballot amended this section to apply the exclusion to transfers of real property from grandparents to grandchildren when all the parents of the grandchildren who qualify as children of the grandparents are deceased as of the date of transfer. By avoiding reassessment to current market value, children or grandchildren can preserve the Proposition 13 protected value of property acquired from their parents (or vice versa) and the property taxes on the property will remain the same.

Revenue and Taxation Code Section 63.1 provides the statutory implementation for Propositions 58 and 193. To receive the change in ownership exclusion, Section 63.1 requires the taxpayer to file a claim form with the assessor. Relevant to this bill, subdivision (f) of Section 63.1 requires each county assessor to report quarterly to the Board of Equalization all claims for the exclusion, other than those involving a principal residence. Individual county reports are then compiled in order to monitor the \$1 million limitation on a statewide basis. Properties transferred after the \$1 million assessed value ceiling is reached are subject to reassessment at current market value.

Proposed Law

This bill would amend Section 63.1(f) of the Revenue and Taxation Code to make quarterly reports optional rather than mandatory. In addition, it adds subdivision (i) to state that the Legislature encourages assessors to continue submitting reports in recognition of the state and local interests served in monitoring the \$1 million limit.

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.

COMMENTS

1. **Sponsor and Purpose.** This bill stems from a hearing by the Assembly Special Committee on State Mandates to review reimbursable state mandates. The committee recommended that legislation be sought that repealed 23 mandates, including the parent-child exclusion, that have been suspended or deferred in the Annual Budget Act since at least 1992-93.
2. **Reimbursement Initially Provided.** The legislation that originally enacted Section 63.1 (Chapter 48, Statutes of 1987) deemed that the provision requiring assessors to quarterly report certain exclusions to the Board was a state mandated cost for which counties could be reimbursed. However, since 1992-93 the funding to reimburse counties for this cost in the annual budget has been zero. Due to the lack of funding, this bill makes the assessors' quarterly reports to the Board optional, but states that the Legislature, in recognizing the local interests served by this mandate, encourages assessors to continue to report exclusions claimed.
3. **Unfunded State Mandates.** Section 6 of Article XIII B of the California Constitution generally provides that when the state enacts legislation that mandates a new program or a higher level of service, the state is to provide a subvention of funds to reimburse local agencies for their costs. This bill makes optional a variety of previously required duties on local agencies for which at some point in time the annual state budget had appropriated money to reimburse locals for their cost but for which funding has been discontinued for a number of years.
4. **Statewide Tracking.** To monitor the \$1 million limit of transfers of real property *other* than principal residences, the Board is required to track, statewide, the \$1 million lifetime exclusion for transferors. The Board created a database of exclusions based on information compiled from each assessor to ascertain when the \$1 million limit on the exclusion has been reached. The Board alerts county assessors on a quarterly basis when persons have exceeded the exclusion limit.
5. **Transfers Exceeding the Threshold Limit.** Currently about 716,500 transfers are included in the statewide database of reported transfers (non-principal places of residences) from 433,640 transferors. In its most recent quarterly report, the Board identified 170 transfers for which a claim for the parent-child change in ownership exclusion was filed by a taxpayer but the \$1 million limit had been exceeded.
6. **Related Legislation.** Identical provisions are contained in SB 1102 (Ch. 227, 2004).

COST ESTIMATE

The Board would incur insignificant costs (less than \$10,000) in informing and advising county assessors, the public, and staff of the change in law.

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REVENUE ESTIMATE

This bill has no revenue impact if county assessors continue to report transfers that are subject to the \$1 million dollar limit. However, if assessors do not report transfers then property owners who have already claimed the parent-child exclusion on more than \$1 million of assessed value may be able to transfer additional property without reassessment.

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