



STATE BOARD OF EQUALIZATION
STAFF LEGISLATIVE BILL ANALYSIS

Date Amended:	3/05/01	Bill No:	SB 48
Tax:	Property	Author:	McClintock
Board Position:	Support	Related Bills:	AB 218 (Dutra)

BILL SUMMARY

This bill would, in part, increase the homeowners' exemption from \$7,000 to \$25,000 beginning with the January 1, 2003 property tax lien date and provide for future automatic increases through an annual inflation adjustment.

ANALYSIS

Current Law

Article XIII, Section 3, subdivision (k) of the California Constitution exempts, from property tax the first \$7,000 of assessed value of an owner-occupied principal place of residence. This exemption is commonly referred to as the "homeowners' exemption." The Constitution authorizes the Legislature to increase the amount of the homeowners' exemption, provided that:

1. Any increase is funded by increasing the "rate of State taxes" in an amount sufficient to reimburse local governments for property tax revenue loss;¹ and,
2. Benefits to renters, which under current practice are granted through the renters' 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 measure would amend Section 218 of the Revenue and Taxation Code to increase the amount of the homeowners' exemption to \$25,000 of full cash value. It would also establish an annual inflation adjustment to be calculated by the Board of Equalization, as specified. With respect to income taxes, it would increase the renters' credit for all persons to \$266 and eliminate income threshold levels that limit eligibility.

Background

Over the years, numerous proposals have been before the Legislature to increase the amount of the homeowners' exemption. Those proposals used various methods, including increasing the exemption by a flat amount, indexing the exemption for inflation and varying the exemption according to the year of purchase.

¹ Article XIII, Section 25 requires that the state reimburse local government for the property tax revenue loss resulting from the homeowners' exemption.

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Previous legislative attempts are summarized in the following table:

Bill Number	Legislative Session	Author	Type
AB 2288	1999-2000	Dutra	Increase for 1 st time homebuyers
AB 2158	1999-2000	Strickland	Increase to \$8,750 for senior citizens
SCA 8	1999-2000	Johannessen	Increase to \$20,000; delete renter's credit parity
AB 2060	1997-98	Granlund	Increase to \$20,000
ACA 43	1997-98	Granlund	Increase to \$20,000
ACA 5	1991-92	Elder	Variable according to assessed value
ACA 31	1991-92	Frizzelle	Index for inflation by California CPI
ACA 47	1991-92	Jones	25% exemption; no assessed value cap
ACA 3	1989-90	Elder	Variable depending on year acquired
ACA 9	1989-90	D. Brown	25% exemption; \$250,000 assessed value cap
ACA 31	1989-90	Hannigan	15% exemption; \$150,000 assessed value cap
ACA 55	1989-90	Wright	Increase to \$48,000
ACA 1	1987-88	Elder	Increased to \$25,000 + indexing for inflation
ACA 25	1987-88	D. Brown	25% exemption; \$250,000 assessed value cap
AB 2141	1985-86	Klehs	20% exemption; \$50,000 exemption cap
AB 2496	1985-86	Cortese	Increased in years with General Fund Reserves
AB 3086	1985-86	Elder	Variable depending on year acquired
AB 3982	1985-86	La Follette	Increase for 1 st time home buyers
ACA 49	1985-86	Elder	Variable depending on year acquired

COMMENTS

1. **Sponsor and Purpose.** This bill is sponsored by the author to increase the amount of the exemption to reflect inflation. The author's office notes that while property values have increased dramatically, the homeowners' exemption has not been increased accordingly.
2. **Amendments.** The March 5 amendment added co-authors and made a nonsubstantive change. The February 27 amendment made changes to the renters' credit provisions of this bill.
3. **Exemption Amount Unchanged for 27 Years.** The homeowners' exemption was first enacted in 1968 in the amount of \$3,000 of full cash value and was increased in 1974 to its current level of \$7,000 of full cash value. Arguments against increasing the homeowners' exemption have centered on the point that Proposition 13, instituted in 1978 after the last increase in the homeowners' exemption, has provided sufficient property tax relief to all property owners, including homeowners.
4. **The \$7,000 Exemption is a Minimum Amount.** The \$7,000 amount specified in the Constitution sets forth the *minimum* amount of the exemption. The Constitution states that the homeowners' exemption can be increased, as long as it is associated with an equivalent increase in the amount of the renters' credit (Revenue and Taxation Code Section 17053.5), and any increase is funded by increasing the rate of state taxes sufficiently to reimburse local governments for property tax revenue losses.

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5. **Provides Annual Property Tax Savings of an Additional \$192.** The homeowners' exemption, in the amount of \$7,000 of full cash value, at the 1.067% statewide average property tax rate, provides annual property tax savings of about \$74.69 to persons who own homes with an assessed value of more than \$7,000. This measure would increase the tax savings to \$266.75 (\$25,000 x 1.067). (The renters' income tax credit increase to \$266 is based on this calculation.)
6. **Late-Filing Partial-Exemption Provisions.** Conforming amendments would be necessary to increase the amount of the partial exemption provided to persons who miss the February 15 deadline to file a claim for the homeowners' exemption.
275. (a) If a claimant for the homeowners' property tax exemption fails to file the required affidavit with the assessor by 5 p.m. on February 15 of the calendar year in which the fiscal year begins, but files that affidavit on or before the following December 10, an exemption of the lesser of ~~five thousand six hundred dollars (\$5,600)~~ twenty thousand dollars (\$20,000) or 80 percent of the full value of the dwelling shall be granted by the assessor.
7. **Related Legislation.** AB 218 (Dutra) would increase the homeowners' exemption from \$7,000 to \$25,000 for qualified first-time homebuyers who purchase a home after January 1, 2002 and before December 31, 2007, for the first 5 years of ownership.

COST ESTIMATE

With respect to property taxes, the Board would incur some minor absorbable costs in informing and advising local county assessors, the public, and staff of the law changes.

REVENUE ESTIMATE

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 exemption amount is reduced to \$5,600 on claims that are filed late. The state is required to pay subventions to counties for the homeowners' exemption to offset the resulting county property tax loss.

Over the course of the last few years, the state reimbursement to the counties to cover the homeowners' exemption has grown slightly:

1999-00	\$397,137,000
1998-99	\$388,829,000
1997-98	\$383,236,000
1996-97	\$383,238,000

The total exempt value of the homeowners' exemption amounted to \$36,199,000,000 on 5,184,600 claims in 1999-00. The average value of the homeowners' exemption in 1999-00 was \$6,982, indicating that only a tiny percentage of all such claims do not currently receive the maximum exemption amount of \$7,000.

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The percentage of homeowners' exemption properties that would not receive the maximum exemption amount should not change appreciably if the amount were increased to \$25,000. This means that the total homeowners' exemption subvention for 2002-03 under this bill is estimated as follows:

$$\$397,137,000 \times (\$25,000/\$7,000) = \$1,418,346,000$$

The annual increase in the subvention starting in 2002-03 would be at least:

$$\$1,418,346,000 - \$397,137,000 = \$1,021,209,000$$

Under this bill, the amount of the homeowners' exemption would be computed annually by multiplying the exemption amount for the current lien date by the inflation adjustment factor. This inflation adjustment would be based on the year-to-year increase for June in the California Consumer Price Index (CCPI) for all items. The June year-to-year increases in the CCPI in the last four years have been modest, ranging from 2.171 percent in 1997 to 3.695 percent in 2000. Assuming that the inflation adjustment continues in the 2 to 4 percent range, the exemption amount can be estimated to grow in the first five years as follows:

2003-04	$\$25,000 \times (1.02 \text{ to } 1.04) = \$25,500 \text{ to } \$26,000$
2004-05	$(\$25,500 \text{ to } \$26,000) \times (1.02 \text{ to } 1.04) = \$26,010 \text{ to } \$27,040$
2005-06	$(\$26,010 \text{ to } \$27,040) \times (1.02 \text{ to } 1.04) = \$26,530 \text{ to } \$28,122$
2006-07	$(\$26,530 \text{ to } \$28,122) \times (1.02 \text{ to } 1.04) = \$27,061 \text{ to } \$29,247$
2007-08	$(\$27,061 \text{ to } \$29,247) \times (1.02 \text{ to } 1.04) = \$27,602 \text{ to } \$30,417$

Based on these projected exemption amounts, the increase in the subvention due to the inflation factor adjustment is estimated to be:

	Exempt amount	Estimated total subvention	Less current subvention amount of \$1,418,346,000
2003-04	\$25,500 to \$26,000	\$1,446,700,000 to \$1,475,080,000	\$28,354,000 to \$56,734,000
2004-05	\$26,010 to \$27,010	\$1,475,648,000 to \$1,532,381,000	\$57,302,000 to \$114,035,000
2005-06	\$26,530 to \$28,122	\$1,505,149,000 to \$1,595,470,000	\$86,803,000 to \$177,124,000
2006-07	\$27,061 to \$29,247	\$1,535,275,000 to \$1,659,295,000	\$116,929,000 to \$240,949,000
2007-08	\$27,602 to \$30,417	\$1,565,968,000 to \$1,725,674,000	\$147,622,000 to \$307,328,000

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Revenue Summary

This bill would increase the state's reimbursement for the homeowners' exemptions by at least \$1.021 billion annually starting in 2002-03. In addition, it is estimated that the inflation factor adjustment proposed in this measure would further raise the reimbursement by \$28.4 to \$56.7 million in 2003-04 and by \$147.6 to \$307.3 million in 2007-08. The increase due to the annual inflation factor adjustment is expected to grow significantly over time due to the compounding effect of the adjustment.

Qualifying Remarks

This estimate assumes that the amount of the partial homeowners' exemption will be similarly increased from "the lesser of \$5,600 or 80 percent of the full value of the dwelling" to "the lesser of \$20,000 or 80 percent of the full value of the dwelling."

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