STATE BOARD OF EQUALIZATION
STAFF LEGISLATIVE BILL ANALYSIS

D R A F T

Date Amended	**06/10/08**	Bill No:	**SCA 24 / SB 1610**
Tax:	**Property**	Author:	**Dutton and Alquist**
Related Bills:			

BILL SUMMARY

This bill would place a constitutional amendment before voters to allow base year value transfers to homes of greater value and extend the period to acquire a replacement home to three years.

Summary of Amendments

The amendments since the previous analysis add Senator Alquist as a coauthor and make nonsubstantive changes.

ANALYSIS

CURRENT LAW

Under existing law, real property is generally reassessed to its current fair market value whenever there is a "change in ownership." However, under certain circumstances, property owners may avoid reassessment of a particular property by way of either a change in ownership exclusion or a base year value transfer. (Article XIII A, Sec. 2; Revenue and Taxation Code Sections 60 - 69.5)

Section 69.5 of the Revenue and Taxation Code provides that persons over the age of 55 and severely and permanently disabled persons may transfer their base year value (i.e., their Proposition 13 assessment) of their principal residence if they purchase or newly construct another principal place of residence of equal or lesser value that is located in the same county if certain conditions are met. Additionally, seven counties (Alameda, Los Angeles, Orange, San Diego, San Mateo, Santa Clara, and Ventura) permit persons to transfer their base year values from homes located in other counties. This once-in-a-lifetime benefit allows seniors and those that become permanently and severely disabled 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.

Section 69.5 details the provisions for qualifying for a base year value transfer. Relevant to this bill, one requirement is that the replacement dwelling must be of "equal or lesser value" than the original property. Determining whether a replacement dwelling meets the "equal or lesser value" requirement depends on when the replacement dwelling is purchased. Generally, the purchase price of each home is used as the basis of the value comparison test. However, since the replacement dwelling need not be purchased for up to 2 years after the sale of the original property, the law allows for an inflation adjustment as follows:

- If the replacement dwelling is purchased prior to the sale of the original property, then its value must be 100% of the value of the original property or less.

- If the replacement dwelling is purchased within the first year of the sale of the original property, then its value can be up to 105% of the value of the original property.
- If the replacement dwelling is purchased within the second year of the sale of the original property, then its value can be up to 110% of the value of original property.

PROPOSED LAW

Homes of Greater Value. This Senate Constitutional Amendment, if approved by voters, would amend subdivision (a) of Section 2 of Article XIIIA of the California Constitution to provide for the transfer of a base year value to a replacement dwelling that is of greater value. The base year value of the replacement dwelling would be calculated by adding the difference between the full cash value of the original property and the full cash value of the replacement dwelling to the base year value of the original property. SB 1610 would amend the implementing provisions into Section 69.5 of the Revenue and Taxation Code.

Three Years. This Senate Constitutional Amendment would also extend the period of time during which a person eligible for a base year value transfer has to purchase or construct a replacement dwelling from 2 years to 3 years of the sale of the original property. The value of the replacement dwelling if purchased within the third year of the sale of the original property could be up to 115% of the value of the original property for purposes of meeting the "equal or lesser value" requirement.

IN GENERAL

Under Proposition 13, property is reassessed to its current market value only after a change in ownership occurs. 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%.

Base Year Values. At the time of the ownership change, the value of the property for property tax purposes is redetermined based on current market value. The value initially established is referred to 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 referred to 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 or newly constructed home to its fair market value. Homeowners may also newly construct a home on land that they purchase.

- Proposition 60, approved by the voters on November 6, 1986, amended Section 2 of Article XIII A of the California Constitution to allow persons over the age of 55 to sell a principal place of residence and transfer its base year value to a replacement principal place of residence within the same county.
- Proposition 90, approved by the voters on November 8, 1988, extended these provisions to a replacement residence located in another county on a county optional basis. Currently seven counties accept transfers from outside their county.

- Proposition 110, approved by the voters on June 5, 1990, extended these provisions to severely and permanently disabled persons of any age.

Section 69.5 of the Revenue and Taxation Code provides the statutory implementation for these propositions.

COMMENTS

1. **Sponsor and Purpose.** This bill is sponsored by the author to remove an impediment to persons 55 years and older from moving to a home that may better suit their needs due to the property tax consequences.

2. **Amendments.** The June 10 amendments add Senator Alquist as a coauthor and make nonsubstantive amendments.

3. **Base year value transfers extend Proposition 13 protections.** A “base year value transfer” allows eligible homeowners to preserve the Proposition 13 protected value of their prior residence by transferring it to the new residence. If a home of equal or lesser value is purchased, it essentially allows a homeowner to continue to pay the same basic amount of property taxes.

4. **How would the base year value transfer be calculated when a home of greater value is purchased?** The value of the replacement dwelling for property tax purposes would be calculated by adding the base year value of the original home to the difference in market values between the two homes. Thus, the new “combined” base year value would be:

   Assessed value = Base year value transfer + Increase in market value

   For example. With this bill, the taxes on a home that is of greater value are dependent on the facts of each situation. The following table shows the possible tax savings if a person sells a home for $500,000 and buys a new home for $600,000. Without a base year value transfer, the taxes on the home at the basic 1% tax rate would be $6,000.

Assessed Value of Original Property	Market Value Difference Between Homes	Assessed Value of Replacement Dwelling with Base Year Value Transfer	Taxes Under Current Law	Taxes With Base Year Value Transfer	Tax Savings
$100,000	$100,000	$200,000	$6,000	$2,000	$4,000
$200,000	$100,000	$300,000	$6,000	$3,000	$3,000
$300,000	$100,000	$400,000	$6,000	$4,000	$2,000
$400,000	$100,000	$500,000	$6,000	$5,000	$1,000

5. **Comparability.** In comparing two homes, current law is based solely on the market value of the two homes. Other elements of “comparability,” such as size or quality, are not taken into account. While a person may “downsize” in terms of square footage, it is not necessarily less expensive. For instance, a smaller condo in an urban area may cost more than a larger home in a suburban area. Moreover, two homes that are comparable in terms of size and quality will not be comparable if the new home is located in a more expensive location.

COST ESTIMATE

The Board would incur some minor absorbable costs in informing local county assessors, the public, and staff of the law changes.

REVENUE ESTIMATE

BACKGROUND, METHODOLOGY, AND ASSUMPTIONS

These bills would allow base year value transfers when the replacement property is of a greater value than the original property. The new "combined" base year value would include the assessed value of the original property plus the difference between the market value of the original property and the market value of the replacement property. What this does, in effect, is make the dollar difference between the market value of the replacement property and its new "combined" base year value equal to the difference between the market value of the original property and the assessed value of the original property.

The 2007 California median home sale price was $558,000. The average assessed value of properties receiving the homeowners' exemption for 2006-07 was $280,000. Therefore, the estimated assessed value difference per home for qualified base year transfers under this bill is $278,000 ($558,000 - $280,000). This value represents the average difference between the market value of the original dwelling and its assessed value. Using these averages, we estimate that each base year value transfer granted results in a revenue loss of $2,780 ($278,000 x 1% tax rate).

Based on an extensive analysis of electronic data files containing county information on various types of base year value transfers, we estimate that over the last 5 years approximately 6,900 base year value transfers were granted annually.

Based on information gathered from the 2000 US Census Bureau, we estimate that persons aged 55 years and older made up 18% of all owner-occupied housing in California in 2007.

We do not know the number of eligible homeowners that may decide to purchase a new home and exercise their right under this bill to file for a base year value transfer.

We assume that this bill would increase by 100% the annual number of eligible base year value transfers granted, which would mean 6,900 more claims. The revenue impact of this bill would be as follows:

Additional Base Year Value Transfers	Average Revenue Loss Per Transfer	Estimated Revenue Impact
6,900	$2,780	$19,182,000

In the case of a replacement property of equal or lesser value, this bill requires that the amount of the full cash value does not exceed one hundred fifteen percent of the amount of the full cash value of the original property if purchased or constructed within three years of the sale of the original property. This is an increase of five percent over the current requirement of one hundred ten percent within two years. Once again using the 2007 California median home sale price, we can estimate the average affected value of one property as it relates to this change as:

$558,000 x 5% x 1% or $279.

Based on a survey of counties, very few claims are currently denied based on the expiration period of the two-year requirement for the purchase or construction of a replacement dwelling. Therefore, the proposed change extending the period of time from two years to three years will have a minimal revenue impact.

REVENUE SUMMARY

Homes of Greater Value. This bill would result in a revenue loss of $19.2 million annually for extending the base year value transfer to a replacement dwelling of greater value. While claims of this nature are allowed only once, this amount would grow over time as the number of qualifying claimants increases each year due to an aging population.

Three Years. There would be a minimal revenue impact due to increasing the period of time for acquiring or constructing a replacement dwelling from two to three years.

Qualifying Remarks. For a claimant to be eligible for the proposed property tax relief for a replacement dwelling, there must be a transfer of the original property by way of a change in ownership, subjecting that original property to reappraisal at its current fair market value.

Analysis prepared by:	Rose Marie Kinnee	(916) 445-6777	06/19/08
Revenue estimate by:	Bill Benson	(916) 445-0840	
Contact:	Margaret S. Shedd	(916) 322-2376	

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