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Initiative Constitutional Amendment and Statute: Changes Requirements for Certain Property Owners to Transfer Their Property Tax Base to Replacement Property.

L E G I S L A T I V E   A N A L Y S T ' S   O F F I C E

Presented to:
Senate Governance and Finance Committee
Hon. Mike McGuire, Chair

Assembly Committee on Revenue and Taxation
Hon. Autumn Burke, Chair

Assembly Committee on Budget
Hon. Phil Ting, Chair

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Background

☑ ***Local Governments Levy Taxes on Property Owners.*** Property taxes are a major revenue source for local governments (cities, counties, schools, and special districts), raising over $60 billion per year.

☑ ***Property Taxes Based on Purchase Price.*** When a property is purchased it is taxed at its purchase price. Each year after the property's taxable value is adjusted for inflation by up to 2 percent. This continues until the property is sold and again is taxed at its purchase price.

☑ ***Movers Often Face Increased Property Tax Bills.*** The taxable value of most homes do not reflect current market values. When an existing homeowner buys a new home which is taxed at current market value, their property tax payment for their new home often is higher than for their old home.

☑ ***Higher Property Taxes May Discourage Some Movers.*** Some research suggests that potential movers may be discouraged by the possibility of paying more property taxes.

☑ ***Special Rules Allow Certain Homeowners to Move to a Different Home Without Paying Higher Property Taxes.***

- Home must be equal or lesser value.
- Homeowner must be over 55 or severely disabled or own a property impacted by a natural disaster or contamination.
- Must move within the same county or to a limited number of other counties.
- Generally, special rules can only be used once in a lifetime.

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Changes Proposed by the Initiative

☑ ***Expands Special Rules for Eligible Homeowners.*** The measure amends the State Constitution to expand the special rules that give property tax savings to certain homeowners when they buy a different home. Beginning January 1, 2019, the measure:

- Allows homeowners to move anywhere in the state.
- Allows the purchase of a more expensive home.
- Reduces taxes for newly purchased homes that are less expensive.
- Removes limits on how many times a homeowner can use the special rules.

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An Example

- ☑ ***Hypothetical Homeowner.*** A 55 year old couple owns a home with a taxable value of $200,000 and a market value of $600,000. At a property tax rate of 1.1 percent (the statewide average), their yearly property tax bill is $2,200. The couple is considering moving to one of two different homes: one with a price of $700,000 and one with a price of $450,000.

Under Current Law

- ☑ ***More Expensive Home: Tax Bill Increases to $7,700.*** This move currently is not eligible for the special rules. The new home's taxable value would be set at the purchase price of $700,000.

- ☑ ***Less Expensive Home: Tax Bill Stays at $2,200.*** The special rules would apply to this move. The new home's taxable value would be $200,000 (the same as their old home).

An Example *(Continued)*

Under Proposed Law

☑ ***More Expensive Home: Tax Bill Increases to Only $3,300.*** This move would be eligible for the special rules under the measure. The new home's taxable value would be $300,000.

$200,000	+	$100,000			=	$300,000
Prior home's taxable value		$700,000 New home's market value	-	$600,000 Prior home's market value		New home's taxable valuable

☑ ***Less Expensive Home: Tax Bill Decreases to $1,650.*** This move is eligible for the measure's new more beneficial formula. The new home's taxable value would be $150,000.

$200,000	×	75%			=	$150,000
Prior home's taxable value		$450,000 New home's market value	÷	$600,000 Prior home's market value		New home's taxable valuable

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Fiscal Effect

☑ ***Reduced Property Tax Revenues to Local Governments.*** In the first few years, schools and other local governments each probably would lose over one hundred million dollars per year. Over time these losses would grow, resulting in schools and other local government each losing around $1 billion per year.

☑ ***More State Spending for Schools.*** Current law would require the state to provide more funding to most schools to cover their property tax losses. State spending for schools, therefore, would increase by an amount roughly equal to schools property tax losses.

☑ ***Other Fiscal Effects.*** The measure would have other smaller fiscal effects:

- Increase in property transfer tax revenues.
- Increase in income tax revenues.
- Higher administrative costs for county assessors.