

## **Final Report: Property Tax Basis Portability Task Force**

September 17, 2008

The task force was appointed in February 2007 with the following charge:

### Mission Statement:

1. Assess the political viability of addressing the issue of Property Tax Basis Portability, and if feasible, then
  - a. Determine whether expanding the ability of homeowners to transfer their property tax basis to a new property will increase the availability of housing
  - b. Determine whether homeowners should be allowed to transfer their property tax basis when they purchase homes that are more expensive than their current homes
  - c. Examine the tax revenue impact to government.
2. Become familiar with the current program which allows seniors (55 and over) to transfer their existing property tax basis to another home within the same county or to another county that has elected to participate in the program, and review the options available for expanding that ability to more homeowners.
3. Make recommendations as to what, if any, actions (legislative or otherwise) C.A.R. should take with regard to property tax basis portability and report to the C.A.R. Board of Directors at their June 2007 Board meeting.

### Members:

Deborah Ritchey, Chair  
Toby Bradley  
Cynthia Carley  
Judy Ellis  
Robert Kevane  
Peter Morris  
Mark Peterson  
Michael Roberts  
Suzanne Yost

### Meetings:

March 21, 2007, Sacramento.  
April 30, 2007, Sacramento.

October 10, 2007, Anaheim.  
January 23, 2008, Indian Wells.  
June 6, 2008, Sacramento.

**Executive Summary.** One approach to addressing the housing affordability problem would be to increase the ability of homeowners to move up and down the “housing ladder.” Interestingly, while Proposition 13 helps homeowners remain in their homes, it also has the affect of “trapping” them in their homes. This is because each time a homeowner seeks to move up the housing ladder, they have to start over with regard to the protections provided by Proposition 13. In other words, they give up the tax basis on their current home and acquire a higher basis (based on purchase price) of the replacement home. This problem is particularly acute for seniors on limited incomes and resulted in Proposition 60 being placed on the ballot and approved by the electorate in 1986.

Unfortunately, Proposition 60 was limited to seniors moving within the *same* county and few counties are participating in the extension of the Proposition 60 program authorized by Proposition 90 which allows seniors to move across county lines while retaining their property tax basis so long as the county to which they are moving has agreed to participate in the Proposition 60 program. Another problem with Proposition 60 is that the replacement home must be of equal or lesser value than the original home. For many of the same reasons for allowing seniors to retain their property tax basis, consideration could also be given to eliminating the Proposition 60’s program limitation to seniors so that *any* homeowner would be able to retain their property tax basis. The loss of revenues to government could be mitigated by adjusting the homeowner’s property tax basis upwards by the difference between the sales price of the former home and the purchase price of the new home.

In order to help determine the likelihood of success of attempting to expand property tax basis portability, the task force had a survey conducted of longtime homeowners as well as homeowners that had either already qualified or would soon qualify to transfer their property tax basis. The survey measured homeowner awareness of the impact of property taxes on the cost of owning a home as well as awareness of property tax benefits available under Propositions 60 and 90. The survey found that property taxes play a small part in the home buying decision (which may surprise REALTORS® working in the highest cost areas). Additionally, the survey found that awareness of the ability to transfer property tax basis available under Propositions 60 and 90 is extremely low.

**Legislative Measures.** Three bills relating to property tax basis portability were introduced this year in the state legislature; C.A.R. actively supported all the measures based on existing policy. However, due to the budget deficit and the costs associated with the measures, the legislature did not forward any of the bills to Governor to be signed into law:

Assembly Bill 2579 (Niello), Property Tax Base Year Value Transfer Claimants –

Currently, married homeowners can transfer their property tax basis to another home if one of the spouses qualifies for the benefit; however, the non-qualifying spouse forevermore loses their ability to transfer the property tax basis to a home they own to another home. This measure addresses this inequity by amending the existing statute so that the non-qualifying spouse is not considered a “claimant” of the Proposition 60 benefit. While this measure passed the Assembly, it was held on the Senate Appropriations Committee suspense file.

Senate Constitutional Amendment 24/Senate Bill 1610 (Dutton), Transfer of Basis to a More Expensive Home –

These measures would allow senior homeowners to transfer their property tax basis to a home of *greater* value. The measures would eliminate the fiscal impact to government by adding the difference in the sale price of the former home and the purchase price of the new home to the tax basis of the former home. Both of these measures were held on the suspense file of the Senate Revenue and Taxation Committee, the first committee to consider the bills.

**Problems.** The task force identified the following problems with expanding property tax base year value portability:

1. Politically, legislation to expand portability of property tax basis will be approved only if the perceived revenue loss is negligible.
2. The revenue loss can only be eliminated if the number of transactions involving property tax basis transfers is increased significantly.
3. The low awareness of the property tax benefit available from Proposition 60 is a barrier to increased property tax basis transfers.

Note: While the task force determined that now is not the right time to consider sponsoring any legislation which would increase the portability of California homeowners’ property tax bases due to the current political and economic realities and to the significant lack of awareness on the part of homeowners as to the provisions and ramifications of Propositions 60 and 90, the task force supports C.A.R. continuing its policy of supporting increases in the use of portability when proposed by other entities.

**Possible Solutions.** The task force considered the following possible solutions:

1. Legislation eliminating the county option to opt-into Proposition 60; thus, allowing homeowners 55 years of age and older to transfer their property tax basis to a home anywhere in the state.
2. Legislation eliminating the age restriction; thus, allowing homeowners of any age to transfer their property tax basis to another home.

3. Legislation eliminating the restriction on transferring the basis to a higher priced home; the revenue impact could be mitigated by requiring that the difference in prices between the original and new home be added to the original property tax basis.
4. Educating both REALTORS® and homeowners as to the property tax benefit available from Proposition 60.

**Evaluating Solutions.** The task force used the following principal to evaluate possible solutions:

A proposed course of action should be taken only if it is feasible and will increase the number of property tax basis transfers.

**Recommendations.** The task force makes the following recommendations, that C.A.R.:

1. Develop materials to educate REALTORS® and homeowners about the property tax benefit available due to Propositions 60 and 90. These materials could include but would not be limited to:
  - a. A legal Q&A on the C.A.R. website.
  - b. A brochure that can be provided to REALTORS®, Seniors Real Estate Specialist (SRES) instructors teaching in California, and homeowners.
2. Support a county establishing a pilot project that would evaluate on a temporary basis expanded property tax basis portability and its fiscal impact on government.
3. Staff prepare an Issue Briefing Paper for consideration by the Taxation Committee discussing whether C.A.R. should support legislation informing homeowners via their property tax bill as to the tax benefit available under Propositions 60 and 90.