Lead Committee: Taxation and Government Finance
Level of Government Committee: Legislative

Fall 2013

FLORIDA'S PROPERTY TAX SYSTEM DIFFERS SIGNIFICANTLY FROM CALIFORNIA'S SYSTEM

THE QUESTION

Should C.A.R. study Florida's property tax system further to determine whether there are modifications that should be made to California's method of taxing property?

ACTION

Optional.

POSITION

1. Recommend that the president appoint a task force to study Florida's property tax system.
2. Direct the chair of the committee to appoint a working group to study Florida's property tax system.
3. Other.
4. Do Nothing.

DISCUSSION

The property tax system that has developed in Florida is remarkably similar to the Proposition 90 program in California which allows the transfer of the property tax basis of a home in one county to a home located in another county. The Florida experience may serve to inform how California's property tax system may evolve.

When Proposition 13 was placed on the ballot, one of the arguments made in favor of the measure was that seniors were being taxed out of their homes. Prior to the adoption of Proposition 13, there was no cap on the amount that property taxes could be increased in any given year. And, it was not unusual for counties to simply increase property taxes by whatever rate was needed to meet anticipated costs. As a result, homeowners could see significant increases in their property tax bills

from one year to the next. This was particularly a problem for seniors who were on limited and/or fixed incomes.

Interestingly, homeowners are now arguably "trapped" in their homes due to the Proposition 13 protections. Proposition 13 limits property taxes to 1 percent of the assessed value of the property. Proposition 13 also provides that reassessment occurs only upon transfer of the ownership of a property. Consequently, if a homeowner simply moves from one home to another -- both of which are essentially identical -- he or she is likely to see a significant increase in their property tax simply due to the appreciation that has occurred in the intervening years.

As noted above, property tax cost considerations can be particularly important to seniors with regard to the housing decisions they make. Because of the dramatic increase in the property taxes that can occur when moving from one home to another, California adopted a program intended to protect seniors from such increases. The Proposition 60 program -- which was supported by C.A.R. -- allows seniors (defined as those individuals 55 years of age or older) to transfer their property tax basis to another home of equal or lesser value located in the same county; seniors can perform such a transfer only one time. For example, if an individual purchases a home for $100,000 that appreciates to $500,000 and that individual is a senior, they can purchase a home for $500,000 and only be taxed on the $100,000 property tax basis of their former home. A second program, the Proposition 90 program -- also supported by C.A.R. -- allows intercounty transfers to counties that have agreed to participate in the program (only about a half-dozen counties have elected to do so).

The Proposition 60 and 90 programs' limitation to transfers to homes of equal or lesser value prompted then Senator Bob Dutton to introduce legislation several years ago which would have allowed participants in the programs to purchase homes of greater value. Returning to the scenario used immediately above, that homeowner would have been able to purchase a home, for example, for $700,000. Under the Dutton legislation, the difference between the sale price of the original home ($500,000) and the purchase price of the new home ($700,000) -- in other words, $200,000 -- would be added to the original property tax basis ($100,000) to form the new property tax basis: $300,000.

As noted above, very few of California's 58 counties have chosen to participate in the Proposition 90 program which allows seniors to transfer their property tax basis from a home in one county to a home in another county. As a result, legislation has been introduced in the past and again this legislative session to eliminate the requirement that counties must have opted into the program in

order for a senior to transfer their tax basis to a home located in that county from another county. In other words, homeowners would be able to transfer their property tax basis from their home county to any county located in the state. A system that allows transfers to any location in the state modified by the Dutton proposal that allows "buying up" looks a lot like the existing Florida property tax system -- with a couple of notable exceptions: there is no age restriction nor is there a limit on the number of times that a homeowner can transfer their property tax basis.

While Proposition 13 primarily limits tax increases by placing a 1 percent cap on the tax rate, Florida's property tax increases are only curtailed by a cap on assessments. In Florida, property is reassessed every year; however, the "Save Our Homes" amendment to the Florida Constitution adopted in 1992 limits assessment increases to no more than 3 percent of the previous year's assessed value. (In California, assessments may only be increased by 2% a year regardless of increases in market value.) Interestingly, nonresident homeowners cannot qualify for this cap -- it is only available to homeowners who are permanent residents; this is unlike Proposition 13 which applies to all property owners, residents and nonresidents alike.

In 2007, the Florida Legislature enacted a measure setting the maximum property tax rate that can be adopted with only a majority vote of the local government as the rate that would provide the same amount of tax revenue as was available the year before to the local government. That property tax rate can be exceeded by only a supermajority vote of the local government or upon approval of the voters. And, in 2008, the voters of Florida approved a measure which allows for the transfer of the tax savings that accrue under the Save Our Homes amendment to another home up to $500,000. (This is unlike the Proposition 60/90 programs which do not place a limit on the amount of the property tax basis that can be transferred.)

For example, if a home has an assessed value of $100,000 and a market value of $500,000, it has an assessment difference of $400,000. That $400,000 difference is subtracted from the market value of the new home to arrive at the assessed value for the new home; if the new home has a market value of $700,000, then the assessed value would be $300,000 (note how the previous $400,000 difference between the assessed and market values is maintained after the move to the new home) -- which is the amount on which property taxes are based.

The measure allowing for the portability of the Save Our Homes assessment differential was adopted in large part because homeowners were feeling "trapped" in their homes because of the property tax

increase they would see if they were to move to another, sometimes even smaller, home. While providing longtime homeowners with the flexibility to move to a different home, the measure has resulted in a tax burden shift to new and nonresident homeowners.

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