Proposition 5
Seniors' Base-Year Value Property Tax Relief

CALTAX POSITION

The California Taxpayers Association supports Proposition 5 because the measure allows homeowners age 55 years and older to maintain their property tax base-year value when moving, thereby increasing California's housing supply while increasing local property taxes.

DIGEST

Expands opportunities for homeowners age 55 years and older to keep their property tax base-year value when moving to a new residence. Under current law, limitations apply that prevent these taxpayers from transferring their existing base-year value when purchasing more expensive properties, or property located in another county.

MAJOR PROVISIONS

- **Expands Change-in-Ownership Exclusion.** Homeowners aged 55 years and older would be allowed to apply the base-year value of their principal residence to a replacement property of any value.

- **Change-In-Ownership Exclusion Formula.** If a homeowner purchases a property of equal value, the new assessed value would remain the same. However, if a homeowner purchases a replacement property of greater or lesser value, the initiative specifies that a formula will be used to calculate the new assessed value:

    - **Legislative Analyst's Example for More Expensive Property Purchase.** A couple lives in their suburban home for 30 years. Their home's assessed value (AV) is $75,000, but the property could be sold for $600,000. The couple purchases a beach house for the market value (MV) of $700,000. The formula to calculate the new assessed value of the beach house:

      Old Home's AV + (New Home's MV – Old Home's MV) = New Home's AV

In this example, the assessed value of the couple's new beach house is $175,000.

- **Legislative Analyst's Example for Less Expensive Property.** A couple lives in their suburban home for 30 years. Their home's assessed value is $75,000, but it could be sold for $600,000. The couple purchases a small downtown condo for $500,000. The formula to calculate the new assessed value:

  Old Home's AV x (New Home MV ÷ Old Home's MV) = New Home's AV.

  In this example, the assessed value of the couple's new downtown condo is $62,500.

- **Price of Replacement Property.** The initiative allows qualified homeowners to transfer their base-year value to a replacement property of any value.

- **Location of Replacement Property.** Homeowners using this change-in-ownership exclusion may purchase a replacement property in any county.

- **Unlimited Moves.** This measure does not limit the number of times a homeowner could move, using this change-in-ownership exclusion. When moving, a homeowner's original base-year value would be the basis for his or her replacement property's assessed value.

- **Effective Date.** This measure would apply to changes in ownership occurring on or after January 1, 2019.

FISCAL IMPACT

Research by the California State University has found that because Proposition 13 requires the reassessment of a property to the most recent acquisition value when homeowners purchase a new property, residential property owners are much less likely to move. Scholars refer to this as the "lock-in effect," which CSU says affects many residential households.

The Legislative Analyst's Office produced a static estimate that the initiative would result in a revenue loss of $2 billion or more in the long term for cities, counties, schools and special districts. The extent to which this revenue loss would occur would depend on whether senior homeowners utilize the exclusion. Other economic studies disagree with the LAO's conclusions.

Other research shows that eliminating the "lock-in effect" would increase home sales among homeowners age 55 and older. The California State University study compared home sales in similar states where laws have been adopted to increase homeowner mobility, finding that a change in law would increase home sales. For example, according to a 2008 task force established by the California Association of Realtors, existing voter-approved propositions that established change-in-ownership reassessment exclusions have resulted in little revenue loss for local governments.

In any event, it is unlikely that this initiative would result in lost revenue for local government. Assuming that a homeowner does not move, the existing assessed value for his or her home will not increase by more than 2 percent each year. However, if the homeowners sell their home, the assessed value of that same home will be brought to full acquisition value – and the prior value simply moves with the homeowners to a new property. In this example, the transactions for both the new property and the old property would have a net increase in property tax revenue for local governments.

Among the fiscal impacts identified by the legislative analyst:

- **Effects on the Real Estate Market.** The LAO was unable to estimate how this initiative would affect home sales or home prices, but indicated the initiative would increase "the number of homes bought and sold each year and the prices of those homes."

- **More State Spending on Education.** The existing education funding formula likely wouuld offset any potential revenue loss a school district might encounter. If this initiative does result in lost revenue for local government, the LAO estimates that annual state funding for schools will increase by $150 million annually, increasing by more than $1 billion in the long term.

- **Additional Documentary Transfer Tax Revenue.** As home sales increase, documentary transfer tax revenue would increase for many cities and counties. Local governments would receive tens of millions of dollars in additional revenue each year.

BACKGROUND

Since 1978, voters have modified change-in-ownership rules to exclude ownership changes from reassessment when transferring property from a parent to a child, grandparent to grandchild, and when seniors purchase a qualified replacement property of equal or lesser value. Overall, these laws mitigate Proposition 13's "lock-in effect," but few households are able to benefit from these voter-approved laws.

Among the voter-approved initiatives modifying change-in-ownership laws:

- **Proposition 58 – Parent-Child Change-in-Ownership Exclusion.** Approved by voters November 4, 1986, the initiative provides a change-in-ownership reassessment exclusion for transfers of property between spouses, and parents and children.

- **Proposition 60 – Senior Base-Year Value Transfers.** Approved by voters November 4, 1986, the initiative provides a change-in-ownership reassessment exclusion when homeowners age 55 or older purchase a replacement property of equal or lesser value in the same county.

- **Proposition 90 – Out-of-County Base-Year Value Transfers.** Approved by voters November 8, 1988, the initiative provides a change-in-ownership reassessment exclusion when homeowners age 55 or older purchase a replacement property of equal or lesser value in another county, if the county agrees to accept out-of-county transfers.

- **Proposition 110 – Transfers Involving Severely Disabled Homeowners.** Approved by voters in 1990, the initiative allows severely disabled homeowners to transfer the value of their existing home to a replacement home, and excludes from taxation improvements made to make the home accessible for disabled persons.

- **Proposition 193 – Grandparent-Grandchild Change-in-Ownership Exclusion.** Approved by voters March 27, 1996, the initiative provides a change-in-ownership reassessment exclusion for transfers of property between a grandparent and a grandchild.

Empirical evidence exists that Proposition 60 resulted in the greatest increase of homeowner mobility and home sales.

POLICY CONSIDERATIONS

By expanding change-in-ownership reassessment exclusions, this initiative would result in a property tax savings for homeowners age 55 and older when buying and moving.

Other considerations:

- **Provides Tax Relief for Seniors.** The initiative provides tax relief for homeowners who have reached an age when many are considering retiring, downsizing their homes, and living on a fixed income. This initiative helps these taxpayers prepare for their "golden years."

- **Housing Supply.** This initiative will increase the supply of available housing. Older homeowners often find themselves owning "too much house," and this initiative would provide these homeowners an incentive to downsize, freeing up homes that may be better suited for a younger family's needs. According to the legislative analyst: "In recent years, between 350,000 and 450,000 homes have sold each year in California. Under the measure, home sales could increase by as much as tens of thousands per year."

- **Broadens Reasonable Use of an Existing Change-in-Ownership Exclusion.** Existing law is very limiting in how homeowners age 55 and older may utilize the existing change-in-ownership reassessment exclusion, and relatively few homeowners use this exclusion in comparison to California's total home sales. This initiative broadens how this exclusion may be used, in a manner that is consistent with prior voter-approved ballot propositions.

- **Generates Additional Local Tax Revenue.** A dynamic analysis suggests that additional local tax revenue will be generated by this measure because it will incentivize seniors to buy and sell property. Similarly, passage of Proposition 60 resulted in an increase of homeowner mobility and home sales.