



Tax Portability Gains Momentum

The dream of owning a home is increasingly moving beyond the means of the typical California family because the median price for a home has increased to slightly less than \$600,000, making it a stretch for middle-class families, and simply beyond the reach of families of lower economic means, to purchase a home.

Post-Proposition 13

One approach to addressing the housing affordability problem would be to increase the ability of homeowners to move up and down the “housing ladder” by expanding property tax basis portability in California.

Generally speaking, homeowners seek to move up the “housing ladder” from less expensive to more expensive homes. If mobility is restricted, it becomes more difficult for homeowners to move up the housing ladder and, as a result, the supply of less expensive homes is restricted. Obviously, as sellers move up to more expensive homes, less expensive homes become

available for lower income wage earners.

California’s complex property tax history began with the passage of Proposition 13, which placed a cap on property taxes, as well as a limit on the permitted annual growth to protect homeowners from runaway property taxes.

Interestingly, while Proposition 13 helps homeowners remain in their homes, it also has the effect of “trapping” them in their homes by creating a disincentive for

homeowners to move from one home to another: If they move, their property tax will be based on the purchase price of their new home.

This is particularly a problem for seniors on limited incomes who want to decrease their housing costs by moving into a smaller home. This problem resulted in the passage of Proposition 60 in 1986, which allows seniors to retain their property tax basis so long as they move within the same county and the replacement home is of equal value to or less value than the sale price of the former home. Proposition 90 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 program. However, only seven counties have elected to participate in the program.

Property Tax Basis Portability Task Force

The Property Tax Basis Portability Task Force will examine the various possibilities for increasing the use of property tax basis portability within the state. This will include an examination of the feasibility for any homeowner moving within the same county, or even within the state, to retain his or her property tax basis by removing Proposition 60’s program limitation to seniors.

Consideration will also be given to the feasibility of eliminating the limitation that the next home be equal to or of lesser value than the former home. Arguably, seniors should not be required to purchase a home of lower value in order to qualify for transferring their original property tax basis because their next home—while more expensive than their original home—may, in fact, be smaller and, thus, less costly to maintain than their original home. A possible solution to the loss of revenues to government could be mitigated by adjusting the property tax basis upwards by the difference between the property tax basis of the former home and the basis established by the purchase price of the new home. ♦

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AT ISSUE

In January 2007, upon recommendation by the Board of Directors, C.A.R.’s President appointed a task force to explore the feasibility of expanding property tax basis portability. Over the last few months, the task force has been exploring the circumstances under which a homeowner should be allowed to transfer his or her property tax basis to their next home.

The task force progress report can be accessed at www.car.org under the meetings and events section of C.A.R.’s Web site.